

**A Study of Institutional Change within the Romanian
National Political Economy with a Focus on Elites,
International Forces and Labour**

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Required statement of originality for inclusion in research degree thesis

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Abstract

Recognised shortcomings of the comparative political economy literature are its relatively static analysis and general bypassing of context-specific explanatory variables. The last 20 years of changes in the structural configuration of national varieties of capitalism have made it increasingly apparent that the comparative political economy literature has conceptual problems in relation to its ability to account for institutional change.

This study seeks to provide an explanation for institutional change in Romania, by challenging and stepping away from the traditional elements of change of the comparative political economy literature. I revisit the question of the institutional transformation of a post-Socialist Central Eastern European (CEE) state, making the case for a more dynamic, relational, historically-based, context-specific and agent-driven analysis of institutional change. Drawing on five overarching literatures – varieties of capitalism, Polanyian varieties, economic geography, historical institutionalism and class analysis of elites – my thesis hypothesises the existence of elites, international forces and labour as the principal drivers of institutional change in Romania. In order to examine the unfolding of my approach to the study of institutional change, I designed a longitudinal comparative case study based on the examination of three Romanian sectors with distinct configurations in terms of their historical legacies, spatial and temporal vectors, and structure and composition. The three sectoral economies analysed in my thesis are 1) coal mining – an inward-oriented industrial branch representative of the Socialist regime, 2) auto – an industrial branch established in the Socialist regime with continuity in the newly-established capitalist variety through foreign direct investment, and 3) business services – an industrial branch created in the early 2000s through the inflow of foreign direct investment.

The motivation behind implementing a case study was to generate an in-depth and extensive understanding regarding the processes of institutional formation and institutional change in the context of CEE through the utilisation of the Romanian national variety. I used a combination of 38 in-depth semi-structured interviews, archival research and newspaper articles and technical reports.

My findings establish that the dominant elites have captured the Romanian state and its institutional configuration, and in the process, influenced institutional change across the different sectoral economies. My evidence shows that the dominant elites do not exist in a vacuum; instead, these social agents are situated within the institutional setting alongside other categories of actors with diverging roles and positionalities. International forces act as a force of change with which the domestic elites engage and interact triggering institutional change and transformation across the different spatial scales of the national political economy. More precisely, the presence of FDI produced variations in regional restructuring, driving path destruction (de-industrialisation and de-skilling) in coal mining, path re-construction (industrial upgrading and re-organisation) in auto and path creation in business services within the wider Romanian national variety of capitalism over time. The labour class can also act as a force of change with which the dominant elites engage and interact within the institutional context. However, the picture of labour is institutionally variegated across the different

spatial scales of the political economy, with some sectors such as coal mining and auto exhibiting a strong and coordinated labour model, whereas other sectors such as business services are characterised by a deregulated labour market model typical of liberal market varieties. Thus, labour can be driver of institutional change, although not as powerful as elites and international forces.

My findings extend the emergent theory on the CEE region, as well as refine and add on to the existing body of knowledge regarding the Romanian national variety since its institutional framework is distinct and does not fully replicate the institutional configuration of the other CEE political economies. Furthermore, my findings recognise the importance of breaking the institutional structure into different spatial scales, as this allows us to zoom in on the different spatial configurations – the micro, meso, macro and international – at certain moments in time. At the same time, by conceptualising the institutional setting relationally, we can monitor and assess the different types of exchanges between the existing spatial scales and consequently, measure how they influence institutional change across the various dimensions of the national political economy.

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List of Abbreviations

ABSL	Association of Business Services Leaders in Romania
ACAROM	Association of Romanian Car Manufacturers
ACEA	European Automobile Manufacturers Association
AI	artificial intelligence
AM	applications management
ANIS	Employer's Association of the Software and Services Industry
BIF	banking, insurance and financial services
BNR	Banca Națională a României (National Bank of Romania)
BPO	business process outsourcing
CC	Central Committee
CEE	Central Eastern Europe
CBA	collective bargaining agreement
CEO	chief executive officer
CFO	chief financial officer
CIS	Commonwealth of Independent states
CIT	corporate income tax
CKD	complete knock down
CLA	collective labour agreement
CME	coordinated market economy
CMEA	Council for Mutual Economic Assistance
COMECON	Council for Mutual Economic Assistance
DME	dependent market economy
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EESC	European Economic and Social Committee
EU	European Union
FDI	foreign direct investment
GDP	gross domestic product
GM	general manager
HQ	headquarters
HR	human resources
ICT	information and communications technology
IFIs	International Financial Institutions

IMF	International Monetary Fund
IoT	Internet of Things
IP	intellectual property
IT	information technology
ITO	information technology outsourcing
KPO	knowledge process outsourcing
LBT	local business tax
LME	liberal market economy
MEBO	manager-employee buyout
MNCs	multinational corporations
MP	Member of Parliament
OECD	Organisation for Economic Co-operation and Development
PGG	Polish governmental grants
R&D	research and development
RTR	Renault Technologie Roumaine
SEZ	special economic zone
SMEs	small- and medium-sized enterprises
SSC	shared services centre
TU	trade union
US	United States
UX	user experience
VAT	value added tax
VoC	varieties of capitalism

Chapter 1

Introduction

The aim of this study is to advance understanding of how institutional change occurs within the Romanian political economy. It challenges the traditional elements of change that the comparative political economy literature utilises as explanatory variables to account for shifts in the institutional configuration of nation states. As I shall elaborate in greater detail, the existing comparative political economy literature contains an array of shortcomings, among which the most fundamental are its relatively static analytical framework and its incomplete account of context-specific explanatory variables (Hancké, 2007; King, 2007; Birch and Mykhnenko, 2009; Lane, 2011; Myant and Drahokoupil, 2011; Bohle and Greskovits, 2013; Martin, 2013). The primary context-specific explanatory variables that should have had a wider and deeper incorporation within the conceptualisation of Central Eastern European (CEE) institutional structures and institutional change include the pervasive role of the state and power of elites,¹ the importance of historical legacies² and the effect of international forces on national institutional configurations.³ My objective is to incorporate these three variables within my analytical framework and as a result, to introduce a more dynamic, historically-based, context-specific and agent-driven conceptualisation of institutional change. In order to operationalise this approach, I hypothesise the existence of three structural particularities specific to the CEE region – the control exerted by dominant elites over the structure of the state and the industrial order, the presence and institutional effects of international forces over the national configuration, and the role of labour vis-à-vis other categories of social agents – as the main drivers of change.

Research Questions

My overarching research question is *what is the nature of institutional change in the Romanian national political economy?* and *what are the drivers of institutional change?* In order to develop a comprehensive understanding regarding the principal drivers of institutional change, I break the research agenda into three different sections. First, I

¹ Eyal, Szelényi and Townsley, 1998; King, 2002, 2007; Papadimitriou and Phinnemore, 2004; King and Szeléleni, 2005; King and Sznajder, 2006; Hancké, 2007; Rhodes et al., 2010; Becker and Jäger, 2010; Onaran, 2011; Myant and Drahokoupil, 2011.

² Eyal, Szelényi and Townsley, 1998; Iankova, 2002; King and Szeléleni, 2005; King and Sznajder, 2006; Hancké, 2007; Becker and Jäger, 2010; Rhodes et al., 2010.

³ Tickell and Peck, 2003; Peck, 2004; Peck and Theodore 2007; Streeck, 2007; Brenner et al., 2009; Birch and Mykhnenko, 2009; Bohle and Greskovits, 2013.

begin the investigation by asking *who are the elites?* present in the Romanian political economy. My study recognises the fact that there are continuous membership fluctuations in the power structure or dominant coalition of a state, hence I examine *what are the changing dynamics of the dominant coalition over time?* Furthermore, my study takes into consideration the fact that the institutional context of the Romanian political economy is permeated by variegated exchanges and alliances between different categories of social agents with varying degrees of powers and positionalities. Based on this, I posit the question *how do we map out the evolution of the relationship between elite and non-elite members?* To analyse the different institutional measures and directions driven by elites within the Romanian political economy, I examine the research question *what role if any do elites play in the Romanian national political economy?*

In my study, I highlight that the influence of international forces on the Romanian political economy has stimulated the creation of a model of ‘capitalism from without’ that depends on the presence of foreign direct investment (FDI) and multinational corporations (MNCs). Thus, the research question I analyse is *to what extent do international forces explain institutional change?* I analyse *what role does FDI play?* across the Romanian institutional configuration and the three sectoral economies incorporated in my study. My argument is that the institutional configuration of the Romanian political economy has been influenced by the collaborative arrangements between the Romanian government and international forces. More precisely, while international forces conceptualised and drove the formation of this externally-driven neoliberal order, domestic elites allowed and ratified the consolidation of this external order. In consideration of the above, I posit the following research question: *who or what has facilitated the establishing of an external order?* An important aspect that I want to emphasize is that while I recognise the existence and role of international institutions – such as the World Bank, IMF and European Union – on national models from the CEE region, this is not the scope of my thesis. My principal focus is FDI as the main driver of restructuring and industrial upgrading.

In terms of analysing the power and positionality of labour, my study recognises the fact that labour is institutionally distinct across the different sectoral economies of the Romanian political economy. My expectation from the beginning is to obtain differently patterned institutional stories across the different scales of the Romanian variety of capitalism. Thus, the question that I analyse is *what role does labour play in the*

national political economy? Furthermore, the position of labour will not be treated as an insular institutional concept, without any connection and affiliation to the other institutional actors and elements permeating the Romanian institutional configuration. More specifically, I am interested in observing how the position and power of labour has changed over time within the Romanian political economy. To capture this, I advance the research question *what is the changing role of labour*?

Research Design

I use the case study method in order to construct the theory emerging from the institutional context of the Romanian political economy (Eisenhardt, 1989). The utilisation of a case study allows me to gather rich, detailed and in-depth information about the various country-specific institutional elements that have driven institutional change and transformation within the Romanian institutional setting (Geertz, 1973).

One cannot accurately and comprehensively capture the institutional formation of the Romanian model without focusing some attention on the Socialist legacies and historical traces that constitute the institutional bedrock of this CEE variant. My longitudinal case study design embeds the examination of three subunits or meso case studies in the Romanian political economy. The three meso case studies that I will analyse are: 1) coal mining, 2) auto, and 3) business services. The spatial and temporal configuration of each industry is differentiated vis-à-vis the other; however, what is really striking is actually the timeframe within which each industry is active.

The development of the coal mining industry was intensively pursued starting with the Stalinist planning period in the 1940s and 1950s, when a strong emphasis was placed on heavy and energy-intensive industries (Crowther, 1988). Despite the fact that the industry became unsustainable by the mid-1970s (Cernat, 2006), coal production was expanded according to the Socialist regime principle “For our country, as much coal as feasible!” (Partidul Comunist Român, 1975, 16). Because of intensive exploitation, the competitiveness of the principal coal basins and the quality of production declined (Shafir, 1985); hence, from the mid-1980s onwards the industry embarked on an economic path of decline. The industrial branch was terminated through different phases of restructuring driven by the government and international institutions throughout the 1990s and 2000s respectively (Larionescu et al, 1999; Haney and Shkaratan, 2003; Cernat, 2006; National Federation of Mining and Energy, 2010).

Similar to coal mining, the auto industry also has a pre-capitalist setup, with its historical legacies dating from 1966, when the Romanian car manufacturer Dacia was founded in Pitești (Știință și Tehnică, 2016). The size, sophistication and amount of investment within the industry expanded throughout the Socialist period, with a second car manufacturer being established ten years later in 1976 in Craiova (Lupul Dacic, 2014; General Director Liviu Tănăsescu, 2016; Historia, 2017a). The economic growth and diversification of the auto industrial branch continued during the capitalist era. More specifically, in 1994, 1999 and 2008 respectively the industry was displaced by inflows of FDI and became integrated within the regional European automotive production network (Business Magazin, 2007; Romanian Car, 2014; Adevărul, 2015; General Director Liviu Tănăsescu, 2016). Apart from the two main car manufacturers, the presence of FDI within the institutional configuration of the auto sector resulted in positive spill-over effects on the growth and diversification of the auto components industry (Pavlinek, 2004; Javorcik and Spătăreanu, 2005; Dudian, 2011).

The business services industry is a newly emergent economic path that only became active in Romania from the early 2000s onwards (ABSL, 2015). The ownership structure of the business services sector is almost completely private and concentrated around MNCs (ABSL, 2015; ANIS, 2016). According to industry experts, foreign capital permeated the market via three investment waves that have divergent timeframes and geographies (Outsourcing Today, 2015). The industry first emerged in Bucharest in 2003-2004 – the first wave of development (ABSL, 2017). A second wave of development followed in 2007 – around the time of Romania's accession to the EU – in tier-two Romanian cities such as Cluj, Timișoara, Iași and Brașov. In 2010, the third wave of development ensued – business services MNCs started penetrating tier-three locations; however, operations in these localities are highly embryonic and have been only marginally been developed (Dudian, 2011). Hence, the representatives of foreign capital greatly influenced the creation and evolution of the institutional configuration of the Romanian business services sector. Furthermore, external influences, in the form of the European Union, have also had a transformative effect on the industrial order since the country's accession to the regional bloc (Ban, 2013).

Considering the above, the three sectoral economies can be periodised in distinct 'active timeframes': 1) an old industry emblematic of the Socialist era, 2) a continuous industry with a pre-capitalist setup and a FDI-based facelift, and 3) a 'de novo' industry created as a result of the processes of de-industrialisation and tertiarisation brought on by

neoliberalism. The geographic positioning of these three sectoral economies is also highly diversified. Coal mining is concentrated in a mono-industrial zone in south-western Romania that has proximity to only small- and medium-sized towns, with the regional population being almost exclusively related to the activity of coal output and dressing (Ghose and Bose, 2003). Auto is situated at the periphery of two significant urban areas that have considerable pools of engineers and technicians specialised in automotive and machinery construction – Pitești and Craiova (Dudian, 2011; Guga, 2017). While, the spatial configuration of the business services industry is the most urbanised, with the majority of players located in the heart of the major cities – Bucharest, Cluj-Napoca, Timișoara, Iași and Brașov (ABSL, 2015).

The implementation of a longitudinal comparative case study design enables me to analyse comparatively and longitudinally across the three industries 1) the identity of elites and the changing elite dynamics, 2) the role of international forces (FDI), and 3) the power and positionality of labour as a social agent. While I recognise that labour as a driver of institutional change is less powerful than elites and international forces, I succeed to capture its transformative role within the Romanian political economy. Finally yet importantly, by adopting a longitudinal case study, I am able to grasp the distinct effects that the insertion of FDI (foreign-led varieties of restructuring), and the alliance between domestic and foreign elites, have on the institutional configuration of labour across the three industries over time.

Theoretical Contribution

This thesis is concerned with developing a distinctively interdisciplinary theory-based research process. My study synthesises five overarching approaches to the study of institutional change within the context of the CEE region: 1) varieties of capitalism (VoC), 2) Polanyian varieties, 3) economic geography, 4) historical institutionalism, and 5) the theorisation of the concept of elites. I undertake a systematic analysis of the different literatures, implementing a bottom up grounded approach to theory and constructing a grand theory of institutional change specific to CEE national political economies. By reviewing these different approaches, I am able to capture the regional characteristics that distinguish the CEE region from other spatial configurations.

The CEE region is institutionally distinct from high-income Western economies and any other developing national varieties for that matter (Nölke and Vliegenthart, 2009; Myant and Drahokoupil, 2011; Ban, 2013; Bohle and Greskovits, 2013; Martin, 2013).

Hence, the utilisation of the Romanian case allows me to generate an in-depth and extensive understanding regarding the regional processes of institutional formation and institutional change and consequently, refine and extend the emergent theory on the CEE region. Furthermore, although there is an array of institutional characteristics shared across the entire CEE region, my study accentuates the fact that Romania has a differentiated institutional make-up vis-à-vis pre-established CEE typologies (Visegráds, Baltic states, peripheral economies of Eastern Europe) in terms of politico-economic transformation and transition from plan to market (Cernat, 2006; Myant and Drahokoupil, 2011), process of de-industrialisation and degree of tertiarisation (Becker and Jäger, 2010; Onaran, 2011), level of state capacity and proportion of state ownership (King, 2007; Feldmann, 2007; Myant and Drahokoupil, 2011), historical legacies (Cernat, 2006; Martin, 2013), intervention of IFIs and FDI (Nölke and Vliegenthart, 2009; Capik and Drahokoupil, 2011; Dudian, 2011; Sass and Fifeková, 2011), and capacity of the citizenry and organised labour to impact policy formation and democratic politics (Ciutacu, 2011; Bohle and Greskovits, 2013). Through an iterative process of studying the history, the literature and my fieldwork (both in-depth interviews and archival materials), I refine and add on to the existing theoretical case.

One of the key theoretical contributions of my study is that it adds to the debate that national political economies are not institutionally homogeneous; instead, one can see the persistence of internal systemic diversity and the co-existence of institutionally distinct sectoral economies within a national order. By studying the presence and influence of a set of drivers of institutional change longitudinally, I observe institutional variegation across the three sectors incorporated in my study. The role and positionality of elites, international forces and labour as drivers of institutional change is institutionally divergent across coal, auto and business services. Furthermore, my study captures the existence of institutional divergence within a sector. More specifically, the examination of the two firm-level case studies in the auto sector reveals that distinct institutional logics are pursued at Renault and Ford. This signifies that the Romanian national political economy is by no means an ideal type; instead, what we have is a national context made up of heterogeneous building blocks that is undergoing uneven systemic change, which contributes to the persistence of diversity in capitalism.

Another major contribution of my thesis is the conceptualisation of a relational institutional context fraught by the presence of a multitude of interacting actors, institutions and forces that operate at diverging levels – micro-, meso-, macro- and

international-level. Moreover, breaking the spatial configuration of the national political economy into different integrated or ‘nested’ scales allows me to capture how the institutional changes occurring at one level influence the transformation of other levels. This ability to zoom in on the different spatial scales or geographies of the state enables me pursue theoretical sensitivity and to construct a holistic analysis of institutional change.

Overview of the Thesis

In Chapter 2 *Literature Review and Theoretical Perspectives*, I begin the discussion by emphasizing the different shortcomings of the comparative political economy literature in relation to its ability to account for the different elements of institutional change. I then justify my selection of the Romanian case by comparing the institutional configuration of the Romanian political economy with other CEE typologies – the Visegráds and the Baltic states. After that, I identify five overarching approaches to the study of institutional change within the context of the CEE region: 1) varieties of capitalism (VoC), 2) Polanyian varieties, 3) economic geography, 4) historical institutionalism, and 5) class analysis of elites. I include a comprehensive discussion of each approach, highlighting its deficiencies and gaps, but at the same time incorporating the parts that are scientifically valuable in my own theoretical framework. In the last section of this chapter, I stress the need for a new set of drivers of institutional change that are sensitised to the structural particularities of the Central Eastern European (CEE) region. Based on that, I return to my research questions and the overarching research agenda of this study.

In Chapter 3 *Research Methodology – The Qualitative Approaches Implemented*, I begin by emphasizing to the reader the contextual elements that spurred the initiation of this fieldwork. In the following section, I evaluate my data sites – more precisely, I analyse the ‘wheres’, ‘whens’ and ‘hows’ of my research. Here, I present the research methods that I utilised throughout my study. The main research method that I have chosen, which is most closely associated with the naturalistic approach for direct observation and apprehension of phenomena within the social setting, is in-depth interviewing. However, due to the historical orientation of my study, I recognised the fact that in-depth interviewing is not sufficient and/or appropriate as a ‘standalone’ research method. To achieve a more comprehensive historical narrative, to capture those historical phenomena that in-depth interviewing was unable to account for and to

triangulate, I utilised archival research as a complementary method. I analyse the two chosen research methods in terms of a range of different methodological and ethical issues – appropriateness, sampling, issues of access, managing relations, emotional risks, and ethics and personal consequences. I also present how I gathered and analysed a collection of supplementary data in the form of newspaper articles and technical reports. In the next section of this chapter, I describe the techniques I employed to analyse the data that I collected: first, I define the type of analysis my study makes use of; second, I discuss the frequency and timing of the analysis; and third, I present the different stages of analytical work that were employed. In the following section, I discuss my research design. The elements that I have included as part of my research design are: the theory of methods, the case study design, the case study selection, a discussion regarding the issue of scale and the implementation of longitudinal methods.

Chapter 4 focuses on *The Historical Legacies and Key Moments of Institutional Change of the Romanian National Political Economy (1960s-2010s)*. Chapter 4 is important because it identifies the key moments of institutional change and their drivers across the Romanian national political economy. Understanding the institutional changes that occurred at the national scale allows me to analyse how institutional transformation ensued at the sectoral scale. Hence, Chapter 4 develops a periodisation for my empirical chapters (Chapters 5, 6 and 7). I begin the chapter by discussing the economic orientation or specialisation of the Romanian political economy during the beginning of the Socialist regime (1948-1960). In the next section, I analyse the implementation of the National Industrialisation Programme during the early 1960s – a long-term development project that set the industrial targets for individual industrial branches over a period of 20 years. After that, I present the structural problems characterising the Romanian industry throughout the Socialist regime. In the following section, I analyse the way in which industrial development was pursued between 1965 and 1989 in Socialist Romania. I discuss the expansion of industrial production capacities, the different types of industrial policies pursued and how they influenced the regime's industrial order, and the key institutional players shaping and controlling the configuration of the Socialist industrial order. In the next section, I talk about the fall of the Socialist regime and the ensuing period of economic crisis and industrial decline during the first decade post-Socialism (1990-1998). Within this section, I also examine the various instances of labour unrest that plagued the 1990s. Next, I analyse how international forces have shaped and transformed the institutional configuration of the

Romanian political economy in the post-Socialist era (mid-1990s-2010s). In the last section of this chapter, I look at how the Romanian industrial relations system has changed during the post-Socialist era and analyse the most extensive deregulation of the Romanian Labour Code.

Chapter 5 *Investigating the Role of Dominant Elites in Influencing Institutional Change in the Romanian Coal Mining Sector (1960s-2010s)* discusses the position of the coal mining sector within the Romanian institutional configuration between the 1960s and 2010s, and provides evidence of how different types of elites have influenced the structure of the industrial order over time. After introducing the chapter, I enter a discussion about the identity of elites. I construct a categorisation of ‘elites’, in order to highlight the different levels of power and positionalities and thus, capture the hierarchical structure of elites. In the following section of the chapter, I capture the story of institutional change in the Romanian coal industry, by identifying three instances of interplay between the dominant elites and the different forces of change that permeate the internal dynamics of the coal mining sector. The two instances of interplay embedded within the internal dynamics of the sector are: 1) the interaction between dominant elites and industrial policy, and 2) the interaction between dominant elites and labour. In the last section, I provide a conclusion in which I reinforce the key analytical themes running throughout the chapter and the theoretical contributions I make by undertaking a longitudinal study of the Romanian coal mining industry during the timeframe 1960s-2010s.

Chapter 6 *Investigating the Role of Elites in Influencing Institutional Change in the Romanian Auto Sector (1960s-2010s)* discusses the position of the auto sector within the Romanian institutional configuration between the mid-1960s and 2010s, and provides evidence of how different types of elites have influenced the structure of the industrial order over time. After introducing the chapter, I present my findings on the identity of the elites influencing the institutional configuration of the industry. I then capture the story of institutional change in the Romanian auto industry, by identifying four instances of interplay between the dominant elites and the different forces of change that permeate the internal dynamics of the sector. The three instances of interplay embedded within the internal dynamics of the sector are: 1) the interaction between dominant elites and industrial policy, 2) the interaction between dominant elites and labour, and 3) the interaction between dominant elites and education. In the last section, I provide a conclusion in which I reinforce the key analytical themes

running throughout the chapter and the theoretical contributions I make by undertaking a longitudinal study of Romanian auto during the timeframe 1960s-2010s.

Chapter 7 *Investigating the Role of Foreign Elites in Creating the Romanian Business Services Sector and Influencing Institutional Change* discusses the position of the business services sector within the Romanian institutional configuration from 2003-2004 until 2018, and provides evidence of how different categories of elites have influenced the structure of the industrial order over time. After introducing the chapter, I present some technical data regarding the institutional growth, timeframe and geography of the Romanian business services sector. In the following section, I enter a discussion about the identity of elites. After that, I capture the story of institutional change in Romanian business services, by identifying four instances of interplay between MNCs and different forces of change that permeate the internal dynamics of this sector. The four instances of interplay embedded within the internal dynamics of the sector are: 1) the interaction between MNCs and domestic elites, 2) the interaction between MNCs and the educational system, 3) the interaction between MNCs and labour, and 4) the interaction between MNCs and industrial upgrading. In the final section, I provide a conclusion in which I reinforce the key analytical themes running throughout the chapter and the theoretical contributions I make by undertaking a study of Romanian business services from the moment the sector was established in 2003-2004 until 2018.

Chapter 8 concludes the thesis. I draw an empirical comparison of the central themes – elites, international forces and labour – across the three sectoral economies I investigate. Furthermore, I present the reader with the contribution of my research, highlighting my study's significance from a theoretical, methodological and empirical perspective. Finally, in the last section of this chapter, I identify and acknowledge the main research limitations of my study.

Chapter 2

Literature Review and Theoretical Perspectives

2.1 Introduction

In this chapter, I begin the discussion by emphasizing the different shortcomings of the comparative political economy literature in relation to its ability to account for the different elements of institutional change. Moving forward, I justify my selection of the Romanian case by comparing the institutional configuration of the Romanian political economy with other CEE typologies – the Visegráds and the Baltic states. After that, I undertake a complex literature review of the social, economic and political institutional issues – more specifically, I identify five overarching approaches to the study of institutional change within the context of the CEE region: 1) varieties of capitalism (VoC), 2) Polanyian varieties, 3) economic geography, 4) historical institutionalism, and 5) class analysis of elites. I include a comprehensive discussion in relation to each approach, highlighting its deficiencies and gaps, but at the same time incorporating the parts that are scientifically valuable in my own theoretical framework. In the last section of this chapter, I stress the need for a new set of drivers of institutional change that are sensitised to the structural particularities of the CEE region. Based on that, I introduce the reader to my research questions and the overarching research agenda of this study.

2.1.1 A Study of Institutional Change

An increasingly acknowledged shortcoming of the comparative political economy literature constitutes its relatively static analysis and its insufficient accountability of context-specific explanatory variables (Hancké, 2007; King, 2007; Birch and Mykhnenko, 2009; Lane, 2011; Myant and Drahokoupil, 2011; Bohle and Greskovits, 2013; Martin, 2013). The accent is either placed on whether institutions are defined as rules and norms that shape economic activity (Hall and Soskice, 2001) or as specific incentives that help structure an economy, influencing and directing its pattern of economic change towards growth, stagnation or decline (North et al., 2009), rather than the specificity of the institutions themselves, their origins and their evolution. Changes in the institutional configuration of European political economies in the last three decades – such as the transition from plan to market, the decrease in state-business coordination, the process of de-industrialisation, the rise of the service-oriented economy and the convergence towards more liberal institutional configurations – have

made it increasingly apparent that the comparative political economy literature has conceptual problems in relation to its ability to account for institutional change. The primary context-specific explanatory variables that should have had a wider and deeper incorporation within the conceptualisation of CEE institutional structures and the institutional change include the pervasive role of the state and power of state representatives,⁴ the theoretical importance of historical legacies⁵ and the effect of international forces on national institutional configurations.⁶ Hence, the objective is to incorporate all of these institutional variables within my analytical framework and as a result, to introduce a more dynamic, historically-based, context-specific and agent-driven conceptualisation of institutional change.

2.1.2 Case Selection: Why is the Case of Romania different?

The research programme was developed for analysis of Romania as a principal case study. I justify my choice by utilising three lines of argumentation:

- 1) the relatively under-researched Romanian institutional context;
- 2) its differentiated institutional make-up vis-à-vis pre-established a) advanced capitalist varieties ('the liberal market economy – coordinated market economy' dichotomy) and b) other CEE typologies (the 'Baltics', the 'Visegráds'); and,
- 3) the slow and stagist process of transformation, with each stage having different dominant drivers and internal dynamics, intensity and timing.

Scholars characterise Romania as having a weaker-developed domestic economy relative to countries of the Visegrád typology, namely the Czech Republic, Hungary, Poland and Slovakia, which have undergone a more advanced politico-economic transformation, and currently occupy a more advanced position in the capitalist world hierarchy (Myant and Drahokoupil, 2011). The Romanian national variety of capitalism is also associated with a deeper process of de-industrialisation, a stronger tertiarisation of the economy and financialised growth, and a heavier dependence on remittances (Becker and Jäger, 2010; Onaran, 2011). The rise of the tertiary sector has meant that

⁴ Eyal, Szelényi and Townsley, 1998; King, 2002, 2007; Papadimitriou and Phinnemore, 2004; King and Szelényi, 2005; King and Sznajder, 2006; Hancké, 2007; Rhodes et al., 2010; Becker and Jäger, 2010; Onaran, 2011; Myant and Drahokoupil, 2011.

⁵ Eyal, Szelényi and Townsley, 1998; Iankova, 2002; King and Szelényi, 2005; King and Sznajder, 2006; Hancké, 2007; Becker and Jäger, 2010; Rhodes et al., 2010.

⁶ Tickell and Peck, 2003; Peck, 2004; Streeck, 2007; Brenner et al., 2009; Birch and Mykhnenko, 2009; Bohle and Greskovits, 2013.

domestic and foreign capital inflows have been directed towards the financing of a business process outsourcing (BPO) and knowledge process outsourcing (KPO) industry along with the constant expansion of real estate bubbles, all at the expense of industrial re-construction. Romania is also positioned differently relative to the Baltic states – Estonia, Latvia and Lithuania, which in comparative political economy literature are assessed as three cases of the same variety due to their commonalities in terms of socio-economic institutions. On a ‘social inclusion – neoliberalism’ spectrum, the Baltic states represent the most radical neoliberal cases of CEE national varieties, where strong market-oriented forces have resulted in a weak capacity of the citizenry and organised labour to impact policy formation and democratic politics (Bohle and Greskovits, 2013). Academics also position Romania in the capitalist world economy differently to countries located further east such as Russia, Ukraine and Belarus. These are regarded as national varieties with authoritarian political systems, lower levels of state capacity and substantial levels of state ownership due to more limited system reforms (Myant and Drahokoupil, 2011).

The transition from plan to market and Romania’s institutional transformation have been more problematic than the changing dynamics experienced in the Visegráds and the Baltic states. Most importantly, Romania’s historical legacies are quite diverse – the country experienced one of the strictest and most centralised forms of Communism ever existent (Cernat, 2006). This has led to the accumulation and carrying forward of a very potent set of patrimonial and clientelistic practices, a phenomenon also experienced in my two benchmark categories – the Visegráds and the Baltic states – but to a much lesser extent than in Romania. Thus, while the Romanian institutional context has undergone a similar process of transformation and neoliberal adjustment as the Visegrád and Baltic states respectively, the story of institutional change within the Romanian context contains a degree of nuance that needs to be taken into consideration.

Also, when examining the degree of liberalisation of these states, Romania is the least liberalised case among them. This can be explained by the transition strategy based on ‘gradualism’ adopted in the early 1990s (Lane, 2007; Ban, 2013), as well as the legacy of the attempt to construct a capitalist variety based on domestic capital and the formation of an inward-oriented system within the first decade post-Socialism. Together, these resulted in Romania having a late start on the liberalisation path. The insertion of international finance in Romania has not only taken place later, but it has also been focused on different sectors. As mentioned above, the principal sector to have

been developed in the early 2000s is the service sector – primarily BPO/KPO (also known as business services), real estate and banking. In terms of the secondary sector, Cernat (2002, 2006) argues that only a partial re-construction and restoration of the industrial sector has been achieved. This contrasts with the economic structure of the Visegráds, which has been oriented towards the development of a medium- to high-technology industrial order (Nölke and Vliegenthart, 2009; Martin, 2013), as well as that of the Baltics which is specialised in light industries, furniture, wood, petroleum processing and low value-added services (Myant and Drahokoupil, 2011). Thus, I argue that MNCs and foreign capital have indeed consolidated foreign capital dependent regimes within CEE; however, there are different types of dependency across the CEE political economies – both in terms of degree and type.

The role of labour as a driver of institutional transformation differs across these economies as well. While there has been a general downgrade in the role and power of labour in all CEE national varieties, there are divergent paths in relation to this decomposition and loss of power. If a spectrum would be drawn, labour in the Visegráds would have more power vis-à-vis the Baltic states, where a neoliberal path has been pursued that has entailed the complete ousting of labour from sources of power (Myant and Drahokoupil, 2011). Romania can be placed somewhere in between these two poles; however, since 2011, a massive labour market deregulation package has been implemented, placing the political economy much closer to the radical Baltic end of the spectrum. The New Labour Code dismantled the institutional and legislative foundations in relation to national and economic associations' collective agreements, thus abolishing the national collective bargaining agreement that has been effective since 1991, and so institutionalising the negotiation of collective agreement hence forward at the sectoral-level or firm-level (Ciutacu, 2011). The 2011 shift in labour law aims to promote atypical employment formats, more precisely fixed-term and temporary work contracts, it seeks the extension of probation periods and the increasing flexibility of working time. Moreover, the New Labour Code seeks to introduce a 'libertarian ease' for employers to 'hire and fire' human resources with less cost for the company (Ban, 2013). The new labour legislation effectively raises the barriers to trade union formation – the new statute of limitation indicates that the formation of a union can be realised by 15 employees from the same enterprise instead of the previous legal stipulation, which stated that the requirement was 15 employees from the same economic branch (Ciutacu,

2011). Furthermore, workers' representatives are only formally recognised if the enterprise has over 20 employees (Barbuceanu, 2012).

Thus, considering the above mentioned, Romania has a significantly different institutional configuration relative to the Visegrád and Baltic states, highlighting the fact that CEE national varieties are institutionally different from one another. More precisely, while the political economies of the CEE region share a set of institutional commonalities as I emphasized above, there are structural particularities specific to the Romanian case, which makes them scientifically interesting and theoretically important.

2.2 Analysing and Operationalising the Different Literature Approaches

I have identified five overarching approaches to the study of institutional change within the context of the CEE region – VoC, Polanyian varieties, economic geography, historical institutionalism, and the theorisation of the concept of elites. In the following sections, I will analyse each of them, discussing their deficiencies but primarily highlighting their 'moving parts' that will constitute the foundations of my own research and the theoretical framework that I utilise. In doing so, I implemented a bottom up grounded approach to theory and constructed a grand theory of institutional change specific to CEE national political economies.

Figure 2.1 Grand Theory of Institutional Change Designed for CEE Region

Grand Theory of Institutional Change	
Literature Approach	Moving Parts
VoC	CME-LME dichotomy Hybrid models Institutional complementarities Institutional embeddedness and continuity Regional specificity Historical legacies Role and power of the state Formation of 'capitalism from without' and external dependency FDI-driven industrialisation vs. FDI-driven financialisation
Polanyian varieties	Dynamic institutional context Multi-scalarity Relational approach Historical legacies Regional specificity Role and importance of the political sphere Role of international forces
Economic geography	Multi-scalarity Relational approach Variegated neoliberalism Externally-driven neoliberal restructuring Capital-labour complementarity
Historical institutionalism	Dominant elites and elite sub-coalitions Elite vs. non-elite relations Elites are stable not static (continuity of elites) Societies are not static Limited access orders vs. open access orders Polity-capital interactions
Theorisation of the concept of elites	Relational analysis of class Role of politics in class formation Antagonistic institutional context 'Super-wealthy and powerful class' Power of elites: despotic vs. infrastructural Regional specificity of class Exploitation of labour by elites

2.2.1 Varieties of Capitalism (VoC) Approach

In a now world renowned volume, Hall and Soskice (2001) along with other academics developed a compelling narrative of how different institutional compositions influence firm behaviour and shape national strategies of high-income, industrialised nations in an increasingly competitive and turbulent global economy. The authors conceptualise a dichotomy based on two basic configurations: the liberal market economy (LME) and the coordinated market economy (CME). Hall and Soskice (2001) argue that the liberal market economy, whose primary representative states are the US and the UK, is characterised by the prevalence of market-based relations in the five primary institutional pillars of the economy: corporate governance/finance, industrial relations, vocational training and education, inter-firm relations and firm-employee relations. The

arms' length nature of economic transactions and the market generated flexibility creates an environment optimal for radical innovation. Thus, LMEs compete actively and successfully in high-tech, high-risk and capital-intensive industries such as banking and finance, advanced business services, information technology, and biotechnology and pharmaceuticals. By contrast, the authors argue that CMEs thrive on long-term, stable, consensual and collaborative arrangements between enterprises, between enterprises and banks (also, between enterprises and other financial intermediaries e.g. insurance companies), and between social partners. Due to a low level of dynamic adaptative capacity and market generated flexibility, CMEs create environments less suitable for radical innovation; however, they are world market leaders in sectors that require gradual, incremental innovation such as heavy machinery, tools, automobiles and chemicals.

Some authors have applied the VoC framework to the political economies of the CEE region. Magnus Feldmann (2006, 2007) and in an earlier study Buchen (2005a, 2005b), applying the VoC to CEE, have analysed the Estonian and Slovenian models and have identified them as instances of the LME and the CME model respectively. In a similar study, Cernat (2002) has evidenced the existence of a capitalism *à la carte* in CEE, with some market economies adopting liberal market economy models, whereas others have shaped their institutional configuration along the coordinated market economy model. Other academics identify the states in CEE as cases of 'mixed' or 'weakly coordinated' market economies. In spite of the perceived global neoliberalising pressures and the praise given to CEE post-Socialist states by multilateral institutions for implementing an 'open to foreign capital', privatised, market-oriented capitalist variant, Mykhnenko (2007) argues that none of the market economies in CEE resemble the LME model. Instead, utilising Poland and Ukraine as case studies, the author labels them as hybrid economies and places them away from the ideal type CME end of spectrum. Mykhnenko draws on previous academics that have theorised the existence of hybrid Eastern European capitalism. One such source would be Elena Iankova and her concept of a 'dynamic hybrid' applied to tripartism – her argument is that post-Socialist tripartist arrangements constitute a subtype of neocorporatist capitalism that have been licensed to promote social harmony and institutionalise conflict during the turbulent context of economic depression (Iankova, 2002). The other line of research is that of Chavance and Magnin (2000), who describe the emergence of mixed market economies in CEE

and emphasize the significance of the path-dependent nature of national capitalisms and the institutional embeddedness persisting in these spatial contexts.

Even though the recent literature and array of cross-country comparisons has highlighted some of the patterned distinctions among the institutional configurations of CEE states, the limitations of the VoC as a framework minimises these studies' accuracy and usefulness for assessing the heterogeneity and specificity of the region. First of all, the VoC framework was conceptualised for advanced, high-income economies, and its fundamental assumptions were drawn from the idealised US, British and German models of capitalism. Thus, to assume that we can simply take these types and extend them with minimal structural adjustment to medium-income, less advanced, post-Socialist economies takes for granted their fundamentally distinct nature. Furthermore, we must realise that from the beginning the VoC framework was based on parsimony and designed as a variety based on only two types – the minimum required to achieve the concept of variety. Such parsimony underestimates the true diversity of capitalism in the core economies the framework was initially designed to analyse; hence, it is understood that as we shift to analyse CEE states the framework's inability to capture capitalist diversity is even more evident. In relation to this argument, it is also worth pointing out that the CEE countries were explicitly not capitalist varieties until varying times during the 1990s; instead, they were transition countries with different starting points in terms of the institutional bedrock that underpins a capitalist regime (Lane, 2007, 2011; Myant and Drahokoupil, 2011; Martin, 2013).

Secondly, the VoC framework lacks the built-in capacity to comprehend the influence of 'capitalism from without' and the impact that international actors have on shaping the institutional configuration of nation states. The institutional formation and consolidation in Eastern Europe has been substantially impacted by international and global forces vis-à-vis Western industrialised states. An adequate mapping of the VoC in post-Socialist European states requires analysis of the international embeddedness of national institutions, and the opposing and conflictual pressures resulting from this order. While this body of research recognises the political and economic integration of post-Socialist CEE states with Western Europe and the pressures exerted from EU membership, it goes on to argue that the domestic core logic of coordination within these states isn't disrupted by an external order. By doing so, Bohle and Greskovits (2013) argue that VoC renders the influences of supranational institutions as not significant.

Thirdly, the VoC model fails to capture the effect of historical legacies and the bedrock of more inert institutional continuity that shapes not only the direction and composition of institutional change, but also explains the existence of hybrid institutional models and why many post-Socialist countries do not fit the standard VoC framework.⁷

Through a more complex reading of CEE comparative political economy, Nölke and Vliegenthart (2009) take a step towards understanding the regionally specific nature of the Visegrád states. The authors demonstrate the Visegrád political economies' strong reliance on foreign capital and MNCs specialised in medium to complex industrial activities. The authors posit that the Visegrád economies possess comparative advantages as assembly platforms for semi-standardised durable goods, based on technologies that have been designed and produced by the MNCs. Based on this feature, they adapt the institutional pillars structuring these states and they hypothesise new institutional complementarities that reflect the construction of 'capitalism from without' and external dependency. It becomes evident that the emerging institutional complementarities are not a suitable match with either the LME or CME models; hence, describing the CEE model as a combination of LME and CME institutional elements leads to the identification of a series of superficial commonalities and differences.

Nölke and Vliegenthart's analysis and conceptualisation of a third variety – the dependent market economy (DME), misses one of the fundamental characteristics of CEE economies – that is the pervasive role of the state. The authors fail to observe that the role and power of the state is considerably larger than in the advanced, high-income economies typically analysed by the VoC approach. Furthermore, in terms of state-capital interactions, Nölke and Vliegenthart follow the assumptions of King (2007) and limit the concepts of personalistic enforcement of laws by patrons to benefit clients and rent-seeking activities to the 'clan' economies dominating the global periphery of Eastern Europe and Central Asia – Russia, Belarus, Ukraine, Uzbekistan and Kazakhstan. The argument that I advance is that CEE economies still do not confer the impersonal right to all citizens, who meet a minimal set of criteria, to form organisations; hence, limiting the access to those institutions to the members of the dominant coalition – the elites. My claim is that personal ties and patronage still form the basis of social organisation and are constitutive elements of the playing field for

⁷ Although Feldmann does initially recognise the importance of legacies "before transition and policies adopted in the transition period itself" (2007, 388), he still conceptualises the institutional configuration of CEE states based on the classic VoC framework and lets the institutional specificity rendered by legacies and preconditions fade into the background.

social interaction. Instead of a lustration of elites from the dominant coalition, what we see is their stability in positions of power and only the modification of the composition of this coalition over time. Elites have perfected their ability to assume new roles and identities within the existing power structures and thus, continue influencing shaping the structure of the state.

At the same time, by conceptualising only one DME variant, Nölke and Vliegenthart automatically assume a homogeneity in terms of foreign direct investment (FDI) and production systems in the Eastern European states' form of dependence. By doing so, the authors exclude the possibility of varied forms of dependence existing in CEE and downplay the institutional richness and diversity of the region. Also, when briefly looking at Romania and Bulgaria, Nölke and Vliegenthart categorise the case studies as 'cocktail economies' or political economies stuck in an incoherent institutional configuration that is severely underperforming. What is problematic is the fact that their arguments are based on Cernat's study (2006), whose focus is primarily on the first decade post-Socialism and Romania's transition years to a market economy; hence, the authors are using outdated information and in the process overlooking the rapid pace of transformation that the economy underwent. In a study in 2013, Cornel Ban (2013) provides an extension to the DME variety theorised by Nölke and Vliegenthart, asserting that in the second decade post-Socialism Romania started to converge towards the capitalist variety prevalent in the Visegrád states.⁸ Furthermore, his study demonstrates: 1) the existence of alternative forms of dependency in CEE, and 2) the perpetual state of change of these political economies.

A more comprehensive conceptualisation of the VoC framework is provided by the path dependency tradition. Rather than stating that CEE economies have an institutional configuration based on a mix of LME and CME elements, path dependency varieties are sensitised to the fundamental structural particularities of high-income, advanced national variants relative to CEE national variants. Drawing very much from Eyal, Szelényi and Townsley (1998), King designs a specific dichotomy to capture the distinctive features in CEE as a region, comprised of a 'liberal dependent post-

⁸According to Ban (2013), Romania exhibits a foreign capital dependency similar to the Visegráds, which entails a significant degree of state-business coordination, while labour is excluded as an actor in this arrangement. The author constructs an argument along the lines of Nölke and Vliegenthart's 'FDI as a means of restructuring' narrative, stating that the large movements in capital augmented and accelerated Romania's boom during the 2000s, thus resulting in sharp increases in productivity and export complexity, the carving of niches of industrial excellence and the decrease in the pace of de-industrialisation.

Communist capitalism' category represented by Poland and Hungary, while the rest of the post-Communist world produces a 'patrimonial post-Communist capitalism' model best captured by the Russian institutional configuration. While conceptualising the former category, the author draws attention to the liberal nature of the state and a high degree of external dependency that characterises the economy – that is a high level of dependency on FDI and foreign purchasers for facilitating technological transfer, the training of labour and the provision of managerial skills. By contrast, post-Communist states in the 'patrimonial' category rely less on FDI and foreign purchasers, and instead the organisational structures and internal arrangements are dominated by patron-client arrangements, leading to the capturing of enterprises and the decomposition of the Weberian bureaucratic nature of the state (King and Szeléleni, 2005).

King tries to extend the VoC model beyond rich OECD countries without ignoring the specific fundamental features of the CEE region. What the path dependency tradition achieves is to not take for granted the historical legacies and cultural aspects specific to these states. Instead of simply plotting CEE states on a LME-CME continuum, King emphasizes that a more robust analysis has to account for two fundamental factors: 1) the marginal role played by organised labour, and 2) the backward technological structure as a result of a later process of industrialisation.

Although King's liberal-patrimonial dichotomy is based on the Polish and Russian cases respectively (2007), I believe it has wider applicability. While the political economies of CEE constituting the western rim of the Former Soviet Union can be broadly categorised as instances of the liberal type, members of the Commonwealth of Independent States (CIS) represent instances of the patrimonial model.⁹ However, the problem with this new variety, similar to the VoC, is that it is formed of only two types. I argue that many states in CEE fall in between these two idealised poles. Thus, in an attempt to achieve parsimony by limiting his framework to the construction of a mere dualism, I believe King fails to fully capture the distinctiveness and specificity of the institutional landscape.

King and Szeléleni (2005) claim that states that are part of the liberal dependent capitalist type, encompassing proto-LME and proto-CME elements, have succeeded in preserving state capacity and have even increased it in certain institutional areas. This is because of the high levels of FDI they have experienced and the more favourable

⁹ These would include Russia, Belarus and Moldova.

structure of alliances between the dominant elites – where some partial checks and balances have been implemented on the patron-client networks. I, however, argue that the role of personal ties and patron-client relationships is significantly underplayed in the liberal variety of capitalism.

Major strengths of the path dependency tradition include its ability to recognise the importance of the state in Eastern European economies vis-à-vis the more ‘back-seat’ role played by the state in the initial VoC studies. Hall and Soskice (2001) in their pivotal work have difficulties in explicitly considering the role of the state; however, subsequent authors within the path dependency tradition take a step in the right direction (Hancké, 2007; Rhodes et al., 2010). King (2007) not only succeeds in grasping the role played by the state in the institutional configuration of these economies, but he also attempts to analyse the degree of bureaucratic state capacity – hence, avoiding automatically assuming the existence of rational bureaucratic states in CEE. Moreover, unlike its predecessors, the path dependency literature pays more attention to international pressures. Authors such as Iankova (2002), King (2002, 2007), King and Szelenyi (2005) and King and Sznajder (2006) are sensitised to the impact of foreign capital, MNCs, technological transfers, skills transfers and multilateral institutions – although to varying degrees in terms of strength, form, time and implementation.

Other authors writing within the path dependency tradition include: 1) Becker and Jäger, and 2) Myant and Drahokoupil. The taxonomy constructed by Becker and Jäger (2010) is based on assessing the role of foreign capital in CEE and observing the emergence of different varieties of ‘dependent development’. The distinction is made between a regime of accumulation based on dependent industrialisation and a regime of accumulation based on dependent financialisation (Becker and Jäger, 2010; Onaran, 2011). The central assumption is that the industrial export sector constitutes the primary force of accumulation in countries with dependent industrialisation such as Poland, Slovakia, the Czech Republic, Hungary and Slovenia. The authors state that this type of development is characterised by a high degree of dependency on imports necessary for industrial production; thus, CEE states with such a development structure experienced a rising current account deficit throughout the years that has been further worsened by the substantial amount of profit repatriations by foreign subsidiaries to their headquarters. By contrast, Becker and Jäger argue that in national business systems with dependent financialisation as a mode of accumulation such as Estonia, Latvia, Lithuania, Bulgaria

and Romania, capital inflows have been directed primarily towards the service sector rather than industrial development, leading to a decline in industrial employment and fuelling real estate bubbles.

Perhaps the most comprehensive taxonomy is that established by Myant and Drahokoupil (2011). In their book *Transition Economies: Political Economy in Russia, Eastern Europe, and Central Asia*, the authors theorise five varieties that spread across the former Socialist regimes in Russia, CEE and Central Asia. Basing their taxonomy on forms of international integration and domestic state structures, Myant and Drahokoupil have made a clear distinction between a) FDI-based economies (Czech Republic, Hungary, Poland, Slovakia, and Slovenia), b) peripheral market economies (Baltic states, Romania and Bulgaria), c) oligarchic-clientelistic capitalism (Azerbaijan, Turkmenistan, Kazakhstan and Russia), d) order states (Belarus and Uzbekistan), and e) remittance- or aid-based economies (Albania, Moldova, Bosnia Herzegovina, Armenia, Kyrgyzstan, Tajikistan and Uzbekistan).

In *Transition Economies*, Myant and Drahokoupil attempt to construct a story of economic history, macroeconomic development and industrial policy in 29 Eastern European and Central Asian economies. The major contribution of *Transition Economies* represents the summary of massive amounts of statistical data regarding the post-Socialist development and transformation varieties in the specified area. In the beginning of their study, Myant and Drahokoupil highlight the importance of recognising the diversity of the institutional transformation in the 29 states; however, as their institutional narrative unfolds, it becomes more and more obvious that the discussion is designed around and driven by the Russian case study. The conceptualisation of an overarching case ignores the institutional richness of the area and the nuanced paths of transformation experienced by the other 28 political economies. Furthermore, the study aims to incorporate the historical legacies of the 29 states – more precisely, the overall Soviet experience, the problems experienced during planning and the earlier paths of development pursued in the nineteenth-century – however, by the time the study reaches the discussion of post-Socialist transformation during the 1990s it seems to have forgotten the effect of historical legacies. Thus, while Myant and Drahokoupil identify the importance of historical legacies for post-Socialist Eastern European and Central Asian national varieties, they fail to incorporate them in their conceptualisation of institutionally diverse paths of transformation.

2.2.2 Polanyian Varieties Approach

Bohle and Greskovits (2013) have constructed a post-Socialist capitalist taxonomy that draws on Polanyian varieties. The authors conceptualise the market society as a highly dynamic entity, claiming that it is full of inherent tensions and contradictions. According to the Polanyian narrative (1944), capitalism represents a multi-scalar form of political economy, highly capable of and successful at generating wealth and freedom, in exchange for a continuous conflict between the “self-regulating market mechanism” and socially protective arrangements against the dangers of such a mechanism. This model of ‘moves and countermoves’ constitutes Polanyi’s ‘double movement’ – a contradictory and dynamic interplay that contours and legitimises a third capitalist foundation – the political sphere. The conceptualisation of a dynamic and antagonistic institutional environment where politics is a central dynamic is one of the main assumptions and building blocks of my study.

The authors emphasize the superiority and explanatory power of their framework vis-à-vis any extensions or adaptations of the VoC model and its application to the post-Socialist market economies in CEE. In contrast to the weak (almost non-existent) inclusion of the political sphere in the analysis of national capitalisms accomplished by the LME-CME dichotomy or any of its extensions/derivatives to post-Socialist economies in CEE, Bohle and Greskovits’ framework treats the political sphere as a central pillar. One of the problems of the study, however, relates to how politics is incorporated, and more precisely, the nature of decision-making. The authors design a context in which decision-making is controlled by the dominant elites. Nevertheless, the concept of elites is not systematically analysed, and there is no clear framework that explains the inner functioning and structure of the dominant coalition. Another limitation of the study is the fact that it overlooks how conflict between political and social agents can act as an element for development.

The assumption made by Bohle and Greskovits behind their Polanyian-inspired variety of post-Socialist capitalist economies is that capitalist development takes place at the national scale and within an international order fraught with both risks and opportunities, influenced by contradictory push and pull factors, and steered by social forces and institutions toward and away from social disintegration, economic disorganisation and political breakdown. Bohle and Greskovits give a meaningful representation of transformative supranational and transnational agents. This constitutes

a key assumption that will be utilised and incorporated in the foundations of my own research.

Bohle and Greskovits assert that post-Socialist capitalism from its inception was integrated in a global economy, that entailed not only the growth of ‘markets within states’ but more strikingly squeezing ‘states within markets’, thus creating confusion with respect to the national fault lines of public authority and limiting social protection (Streeck, 2007). As a result, throughout the past two decades CEE states have constantly engaged in the appraisal of the benefits and drawbacks of social protection and its relative impact on global competitiveness. The authors claim that the result has been a new order in which social protective arrangements have been subordinated to global competitiveness. This relationship of subordination varies in degree, resulting in distinct and comparable varieties of post-Socialist capitalism, where the relative weight of ideas and the institutional mix of neoliberalism, welfare capitalism and democratic corporatism differs. The authors theorise the existence of three post-Socialist capitalist types: a pure neoliberal type in the Baltic countries, an embedded neoliberal type in the Visegrád countries, and a neocorporatist type in Slovenia.

Although the Polanyian-inspired varieties are initially set up as stylised, ideal types, I argue that the actual case studies fit into them quite easily – the authors manage to do this by utilising data on diverging institutional configurations, levels of social welfare provision packages, plus other protectionist measures against the self-regulating market forces. At the market-oriented end of the spectrum, we have the radical neoliberal Baltic states. The central characteristics of the neoliberal regime include: the introduction of market radicalism coupled with minimal compensation for transition costs, and a weak capacity of the citizenry and organised labour to influence policy formation and democratic politics.

At the socially inclusive end of the spectrum, the neocorporatist type, represented by Slovenia, implements the least radical strategy of marketization, which is mixed with more generous levels of social protection and more durable institutional structures of social interest representation in order to offset the transformational costs (Schmitter, 1974). The Slovenian post-Socialist regime adopts a template prone to multi-level negotiation between labour, capital and the state, and the achievement of compromise between competing interests that is typical of a democratic corporatist polity. The

authors explain that this is (partly) a product of the decisions and actions taken by the state's dominant elites and (partly) a product of Slovenia's organised labour strength.

Embedded neoliberalism, the in-between case, represents a more socially inclusive regime than the one featured in the Baltic states, due to the ongoing compromise between marketisation and social cohesion. However, despite the persistence of social welfare provision and its attempt to keep radical market forces at bay, this regime does not necessarily result in the creation of efficient systems of democratic government.

The authors also highlight the existence of a 'non-regime' type. The inability to achieve some form of balance between the conflicting forces of the most basic of self-regulating market rule versus social protective arrangements ultimately leads to institutional destabilisation and disintegration. According to the authors, this is exactly the scenario encountered in Romania, Bulgaria and Croatia in the first decade post-Socialism. Later on, Romania and Bulgaria started to resemble the neoliberal model (however in the absence of the identity politics present in the Baltic states), while Croatia converged towards the embedded neoliberal model.

Bohle and Greskovits assert that each of these types is (partly) the product of definable historical legacies, and (partly) the specific actions and decisions made by the state's dominant coalitional members. By appraising and accounting for the importance of past heritages, Bohle and Greskovits have generated a valuable comparative study of political economies that has sufficient explanatory power to demonstrate that the institutional divergence and structural differentiation between countries stems from those countries' distinct historical legacies. This is another theoretical concept that is taken from Bohle and Greskovits' post-Socialist capitalist taxonomy and incorporated in my explanation of the institutional configuration of the Romanian political economy, in order to analyse the identity of actors and institutions, and the existing multi-level interactions influencing the institutional context.

2.2.3 Economic Geography Approach

This approach entails the positing of the concept of variegation at the core of the neoliberalisation project. Neoliberalism is state-led. Because the nature of the state is distinct across countries, this renders neoliberalism to be country specific – more precisely, distinct neoliberal agendas will be pursued in terms of scale, strength and time (Tickell and Peck, 2003; Peck and Theodore, 2007). Moreover, these agendas are

contingent on the specific national context, its specific institutional configuration and historical legacies, in that they are neither implemented in the same manner and through the same methods across countries, nor do they produce the same outcomes in different nation-states: “neoliberal political practice was constructed in and through uneven institutional terrains [...] neoliberalisation processes were directly shaped by the legacies of the regulatory uneven development and crisis formation within the inherited institutional landscapes” (Brenner et al., 2009, 213). What this entails is that the presentation of a homogeneous space of exchange flows and the theorisation of neoliberalism as a hegemonic system of capitalism is a flawed approach – instead, rather than having one universal model there are varieties of neoliberalism.¹⁰

Literature differentiates the neoliberal transitions that have occurred in developed, post-Keynesian states from those that have been implemented in the post-Socialist world. While the former have been characterised as ‘soft neoliberal projects’ (Peck, 2004), the latter have been defined as ‘harder and more externally driven’ transitions that extend beyond the standard deregulation of labour markets and the privatisation of state-owned enterprises to the wholesale institutional re-construction of capitalism. Brenner et al. theorise that a fertile landscape for market-oriented regulatory development is facilitated by what they have termed as “conjectural openings, political vulnerabilities, crisis points” (2009, 211). More specifically, these moments of impasse provide various strategic opportunities for the implementation of market-oriented measures within the domestic institutional context. The Romanian post-Socialist institutional context of the 1990s was permeated by such “conjectural openings, political vulnerabilities, crisis points” (2009, 211)

The Structural Adjustment Programmes dubbed as the Washington Consensus were implemented as a set of ‘one size fits all’ policy measures or a generally applicable universal neoliberal convergence programmes (Williamson, 1994).¹¹ These Programmes were aimed at transforming the non-market post-Socialist societies into a vision of the free market liberal economy epitomised by the US model of competitive relations and minimal government involvement (Gelb and Gray, 1991). Market-led principles were meant to solve the problems of over-industrialisation and over-concentration in heavy

¹⁰ From my literature review, the following works theorised the existence of a variation in the institutionalisation of neoliberalism: Thelen (2014), Birch and Mykhnenko (2009), Peck and Theodore (2007), Albo (2005), Peck (2004), Hall (2003), Tickell and Peck (2003).

¹¹ While overall the same across countries, the Structural Adjustment Programmes had some country-specific adaptations and their implementation was not homogenous across different national varieties.

industries via the implementation of an industrial restructuring reform based on a laissez-faire approach. According to Birch and Mykhnenko (2009), phase one of the neoliberal project in CEE attempted to create a state-led model of Continental capitalism based around large, domestically owned industrial enterprises and domestic sources of capital; however, this internally oriented strategy of neoliberal adjustment proved to be unsuccessful. By the late 1990s, this institutional framework was replaced with an externally oriented strategy that aimed to insert the post-Socialist economies of CEE in the regional European and global economy via the attraction of FDI and MNCs (Myant and Drahokoupil, 2011; Myant, 2007).¹²

One of the major advantages of the economic geography approach constitutes its property of multiscalarity, which is the connection between international and national organisations, and the collaboration between foreign and domestic elites, which are integrated in the explanation of the institutional configuration of states and their institutional change. Thus, elements of change are treated at multiple levels and rather than being explored in a vacuum they are posited within an interconnected system i.e. policy formulation and implementation is examined as a process undertaken at both the national level and international level; the domestic is influenced by decisions and practices implemented by the external, but at the same time the domestic has its own policy agenda that can be further adapted to and extended in a diversified way to a regional and even local level.

The economic geographers also conceptualise and integrate a relational approach between capital and labour. My argument is that as neoliberalisation ensues there is a changing dynamic between the sphere of labour and that of capital. The restructuring of capital automatically reshapes the structure, role and specialisation of labour. Birch and Mykhnenko (2009) identify three possible directions or varieties of neoliberal restructuring in CEE, which very well illustrate this capital-labour complementarity. The first direction is that of severe de-industrialisation, massive decline in traditional fulltime employment, the downgrading of economic activities and intense loss of human capital skills in both industrial and service sectors. According to the authors, this restructuring path fits well with the trajectories followed by Romanian and Bulgarian large industrially dependent regions. The second direction is that of re-construction and

¹² However, we must be careful when making this assumption, because in some of the former Socialist countries foreign capital and MNCs play only a marginal role.

manufacturing upgrading. It entails the extension of high-technology manufacturing vis-à-vis the decline of low-technology sectors, a growth in low value-added services vis-à-vis the stagnation or even decline of high value-added services, and a moderate reduction in the degree of over-industrialisation. This restructuring path fits well with the trajectories followed by Czech and Slovak large industrially dependent regions. The third and last path of re-construction is that of 'creation'. This path involves the creation of an economic structure dominated by the service sector and a moderate decline in the level of de-industrialisation. This direction entails a decline in the technological capacities of both low-tech, low value-added and high-tech, high value-added industrial sectors, while there is a rapid and substantial increase in the technological capacities of both low-tech and high-tech service sectors. The authors argue that this type of restructuring path is limited to Polish large industrially dependent regions.

We must be careful when we apply Birch and Mykhnenko's three possible directions of neoliberal restructuring to analyse economies in Eastern Europe. Indeed this framework sheds light on some of the central characteristics of these post-Socialist states, but their grouping together in clusters might only lead to the identification of some superficial similarities while ignoring more unique, macro-, meso- and even micro-specific institutional peculiarities that give these states spatial distinctiveness and institutional diversity. Moreover, what Birch and Mykhnenko fail to recognise is that states can have a mixture of different directions of neoliberal restructuring, rather than encompassing large industrial dependent regions following a homogenous, universal market-oriented path. Schneiberg (2007) considers the concept of institutional heterogeneity within the national configuration and the existence of valuable inputs for the creation of alternative paths that exist alongside the main path. The central idea is that in every capitalist form there is far more variety beyond the dominant path and that this does not necessarily mean that one system will cannibalise the other, leading to the destabilisation of the overall system. Moreover, Schneiberg observes the creation of unexpected complementarities between the dominant path and the alternative institutional logics. Crouch et al. (2009) and Lane and Wood (2009) also find evidence indicating the peaceful co-habitation of distinct capitalist varieties within a national political economy. In my empirical chapters, I will demonstrate this existence of diverging localised economies within the national Romanian variant, with each of the sectors that I investigate following a different variety of neoliberal restructuring.

2.2.4 Historical Institutional Approach

One of the fundamental purposes of this school of thought is to link the past with the present and future. The primary assumption is that history represents a story of institutional evolution, as North puts it: “history has been characterised primarily as a story of institutional evolution in which the historical performance of economies can only be understood as part of a sequential story” (North, 1991, 1). The author asserts that institutions shape and create the specific incentive structure of an economy, and as that structure evolves, it influences and directs the pattern of economic change towards growth, stagnation or decline (North et al., 2009). Thus, the history of the world’s economies can be divided into two categories: 1) economies experiencing sustained economic growth, and 2) economies unable to sustain economic growth.

In analysing the process of development, North, Wallace and Weingast in their 2009 book *Violence and Social Orders* create typologies of entry, classifying societies as either open access orders or limited access orders. According to North et al., powerful elites have always sought to establish alliances in order to create rents and to limit the ability of citizens to form organisations by conferring this right solely to members of the dominant coalition – this is what constitutes a limited access order or the natural state. There are societies though where there is open entry. The authors state that the central institutional factors that differentiate open access orders from limited access orders include the prevalence of impersonal networks and the presence of perpetually lived organisations.

North et al.’s assumption – that the dominant elites are stable but by no means static in natural states – allows me to analyse the changes in the size and composition of elites, but also the interaction between elites and non-elite members. I argue that every dominant coalition is formed of multiple subcoalitions. Furthermore, my assumption is that there are constant fluctuations regarding the identity and internal distributions of the dominant coalition. Compromises have to be made between subcoalitions, and there is a continuous renegotiation of rents and privileges. Another central assumption is that some of these subcoalitions will suffer from a loss in identity strength and legitimacy, ultimately being weeded out and integrated among the non-elite ranks. I argue that elites will always attempt to increase the rents they extract and the power they hold over the institutional structure – one way to achieve this goal is to tightly control the size of the dominant coalition, limiting it to a minimum necessary. The key here is to precisely

determine the minimum size at which the elite group will yield enough power to control the state and to keep in check competing factions, or at least achieve some temporary form of stability. Conversely, my assumption is that different non-elite groups can gradually acquire a certain level of legitimacy and decision-making capital, and as a result, become new elite members. With time, these new power players can gain sufficient power to disrupt other elite subcoalitions and influence the structure of the regime or industrial order.

North et al. claim that in limited access orders, wealth and power is concentrated in the same hands – this is a key assumption that mirrors the close intertwining between capital and the state prevalent in Romania. Another factor that distinguishes limited access orders from open access orders is the prevalence of non-market principles in the former, while the latter are based on market-based principles. Moreover, North et al. argue that in natural states politicians adopt an interventionist approach to markets. Contrastingly, market-oriented principles dominate open access societies, such as high-income Western economies, where political entry is only limited by a minimal set of criteria. It is precisely this institutional configuration, which awards open access states a comparative advantage in coping with crises or external shocks, as they can adapt more dynamically and champion new policy packages.

North et al. emphasize that societies are not static entities, eternally stuck within their allocated typology; instead, transition can take root in the natural states, when personal elite relationships transform into impersonal elite relationships, as elite privileges become rights applied to wider segment of the population. They claim that when a natural state develops the institutions, organisations, norms and beliefs necessary to sustain intra-elite impersonal relationships, the state is on the ‘doorstep’ – more specifically, the state is in the process of institutionally upgrading and attaining open access order institutions. To meet the doorstep conditions and make the transition to an open access order state, societies need to continue the transformation of their intra-elite relations.

Building on earlier research, North et al. (2009, 2013) design a theory of institutional evolution that is neither mechanistic nor does it result in the spontaneous emergence of new institutional frameworks. Countries do not necessarily incrementally evolve from limited access orders to open access orders – this evolutionary path is not always applicable, nor is it guaranteed. North et al. (2009, 2013) demonstrate clear cases of

stagnation or even regression after decades of positive evolution and sustained economic growth. In some instances, states find ways to design and reinforce rules of the game that will enable them to resume the pattern of economic change towards growth; while in other instances, states experience an institutional involution to a less complex and sophisticated type of society, and in some cases states can even experience a form of ‘death’ or ‘failure’. Some states can even become stuck in an underperforming, less institutionally complex configuration that can act as a developmental trap. I argue that these assumptions can be further extended and applied to different localised sectoral economies within a national framework.

One of the major deficiencies of North et al.’s studies (2009, 2013) results from the absence of agency or put another way, a limited micro-level reasoning to support their arguments and framework. The active agents or actors that permeate the institutional context are not introduced to us – we are unaware of the decisions they make, the strategies they deploy, the challenges they face, what interactions and exchanges they have with other players, the roles they perform and the powers they possess, and what are their values, beliefs and norms. Whether they are politicians or entrepreneurs as part of the dominant elites, or members of the working class forming the non-elites – we have no qualitative insights regarding their identity and the context in which they operate. Thus, concepts such as ‘intra-elite impersonal relationships’ and ‘doorstep conditions’ seem to have been articulated without any flesh on their bones, and as a consequence, they are unable and inadequate to provide a rational and complete explanation as to why some states have achieved sustained economic growth, while others have been unable to develop.

On the other hand, I argue that historical institutionalism offers a higher level of abstraction and accomplishes a macro-level institutional analysis relative to the VoC. The VoC can be characterised as a firm-centred approach, giving micro-foundations to a more general theory on the different makeup of national political economies. Although the two theoretical approaches do not speak to each other, when taken apart and having their ‘moving parts’ operationalised, they can complement each other for what the other is lacking. Moreover, the contribution of economic geography provides a multi-level conceptualisation of institutions that are positioned within an interconnected system. More specifically, institutions and drivers of institutional change of the national political economy (the macro level) need to be understood and analysed in connection to the variety of sectoral economies (the meso level) punctuating the national order, and

furthermore, in connection to the set of firms (the micro level) driving each individual sector. The national scale requires to be further integrated within an international context that is punctuated by transnational actors and supranational transformative forces. Hence, the emerging system is one that establishes a clear framework of interconnectedness and communication between the different scales, with each scale having the power to influence or trigger institutional changes in the other. Thus, by linking together and operationalising the different approaches – VoC, historical institutionalism and economic geography – I can build a more accurate and holistic picture of institutional change that incorporates a multi-level dimension. Instead of constructing another variety of capitalism in CEE, a more nuanced and multidimensional story of institutional change will be captured through the inclusion of a range of variables, such as the identity of elites vs. non-elites, the diverging internal dynamics and the multiplicity of interactive exchanges between institutional actors, and the significance of historical legacies as elements and drivers of change.

2.2.5 Class Analysis of Elites – A Theorisation of the Concept of Elites

There has been an increased degree of awareness about the existence of a super-rich elite group in social sciences (Piketty, 2014); however, this has failed to have wider implications for class analysis. Savage (2000) demonstrates that there have been profound social transformations in the last fifty years, rendering the existing conceptions of class embedded in the classical industrial paradigm outdated. In spite of these profound social changes and the erosion of the traditional class stratification, Savage (2015) advises one should proceed with caution when declaring the end of class.¹³ Taking into consideration the fact that the differentiation between classes has strongly accentuated – for example, the growing social inequality between the proletariat vs. the super-rich, I agree with Savage that we simply cannot treat the concept of class as outdated. The aim is to reposition the concepts of elites and dominant coalition within class analysis in the contemporary paradigm, by taking into consideration the effect of historical legacies and the specificity of the institutional context. According to Skeggs (2015), without fully comprehending and incorporating these histories and dependencies, we cannot develop a holistic picture of social practice and capture the importance of localities.

¹³ Beck and Willms (2004) have labelled class as a ‘zombie concept’, while Giddens (1991) has called the concept of class redundant.

In order to analyse and measure stratification and inequality, one does not necessarily need to use the concept of class. According to Savage (2015), class analysis is about politics. My argument is that economic inequalities need to be placed within broader social, cultural and political relational networks. This approach draws on Bourdieu's approach regarding class. Bourdieu (1985) talks about the relational attributes of class and he argues that classifications are the result of a wider process of contestation and struggle. The fortunes of one class are not independent from those of another. Toscano and Woodcock (2015) are also concerned with these dynamics of interdependence. Moreover, Toscano and Woodcock (2015) highlight the antagonistic politics behind class formation, as well as the political nature of class exploitation. Thus, I argue that the separation of politics from the notion of class formation would result in a mere taxonomic exercise and as in many contemporary writings on inequality from the social sciences, the relationship between class and power would be dissolved. Similar to Bourdieu (1985), and Toscano and Woodcock (2015), I believe that when analysing the concept of class one needs to adopt a relational approach which positions the different categories of classes in an interconnected social arena that is punctuated by both antagonistic relationships and arrangements of coexistence based on the centrality of exploitation and domination. This assumption mirrors the historical institutionalist tradition, which when unpacking the concept of political settlements clearly highlights the fact that the state is founded on a historically determined balance of power between various antagonistic and competing interests (North et al., 2007, 2009, 2013). Furthermore, the way in which this theory of class constructs a social arena based on dynamic exchanges resembles the Polanyian conceptualisation of an interactive and antagonistic institutional environment.

The social stratification in Romania as well as the class system in any other CEE state is highly diversified from that of any high-income advanced nation. Of course, that is the case with any class system, where social context specificity drives the formation divergence and nuance. However, the social agents, dependencies and histories of CEE nations have a highly distinct character by comparison to the social structures and developments in Western European states. According to the literature, in post-Socialist patrimonial national varieties based on client-parent relations such as several of the models in Eastern Europe and Central Asia, there is a larger degree of social inequality between the upper classes and the lower classes – or, the elites and labour (Cernat, 2006; King, 2007).

The regional literature conceptualises the CEE social arena as a site of struggle and contestation between senior state officials and large business group representatives who comprise the super-wealthy and powerful class, whereas the working class has suffered from a gradual erosion of its powers and a downgrade in its positionality within the overarching power structure (Funk and Lesch, 2004; Cernat, 2006; Mrozowski, 2011, 2014; Ribarova, 2012; Trif, 2012; Martin, 2013). Central to the politics of class is the ability of some groups to exclude others from the coalition or power structure where value can be accessed, accumulated and/or converted (Bourdieu, 1989; Lamont, 1992; Skeggs, 2015).

Savage (2015) and Wakeling and Savage (2015) talk about the ‘wealth elite’ as a cohesive group, having a composition that is well networked among its members which permits it to deploy mechanisms and actions with confidence. This can be linked to the assumption that some groups have the power to orchestrate the exclusion of other social members. In order for the ‘wealth elite’ to be more cohesive as a group, a reduction in the membership of the coalition is set in motion. As North et al. highlight (2009, 2013), it is always the weaker institutional players who are the ones eliminated from the existing power structure or coalition.

I have spoken about the wealth elites or the dominant elites, and I have analysed their position vis-à-vis the working class. I will now briefly discuss the players that are in the middle between these two classes. According to Cernat (2006), the middle class is comprised by a group of low- to mid-level managers and state officials that are subordinated to the wealth elites and act as a transmission belt for their exploitative actions and strategies. Using the Romanian case study, Cernat further argues that the degree of exploitation of the proletariat is considerably greater in the post-Socialist CEE region than in high-income Western European countries, where a more robust system of checks and balances is implemented that limits the power of wealth elites, such as comprehensive welfare systems, collective bargaining and unionisation, formalised working conditions, worker rights, etc.

One can observe within the Romanian social context a redrawing of the wealth elites – more exactly, the upper class can be seen as pulling itself away from the other classes, with the division between the upper and lower levels of state officials and business representatives being larger than that between the overall class of state officials and business representatives and the working class. The social structure is defined by tall,

hierarchical structures that comprise several layers of mid- and low-level state officials and business representatives that also exploit and extract value from the working class. Together all these social structures are dominated by the upper elite level (wealth elites), who exploits mid- and low-level state officials and business representatives and workers in order to access, achieve and convert value.

So far, I have presented the prevalent social stratification and emphasized the internal dynamics between the different social classes, while at the same time emphasising the specificity of the social context and class analysis in CEE. I further unpack the issue of specificity by looking at the different ways in which wealth elites are powerful. To do this I will utilise Mann's theoretical framework of state and elite power (1984). Mann hypothesises two meanings of power: despotic vs. infrastructural. Despotic power refers to those actions and strategies performed by the dominant coalition that do not involve the routine, institutionalised negotiations with civil society groups; instead, despotic powers are associated with less developed forms of society as illustrated by various historical states from the past. I argue that there is a strong relationship between Mann's theory of power and North's conceptualisation of limited access order (2009, 2013). Infrastructural power or the power of the state refers to the penetration or central coordination of activities of civil society through the state's own infrastructure – making the state a mere instrument of forces (Mann, 1984). Applying this definition, Mann argues that Western capitalist societies are despotically weak but infrastructurally strong. My assumption is that this is not completely the case with CEE societies. While I do not claim that these post-Socialist varieties are despotically strong and infrastructurally weak, my argument is that within these institutional configurations politicians are to a much lesser extent controlled by civil society groups and the rule of law. Moreover, the relationship between politicians and business representatives is of a clientelistic nature (King and Szeléleni, 2005; Cernat, 2006; King, 2007). According to various authors, wealth elites in CEE political economies have the tools to surreptitiously amass wealth, hold onto power and positions utilising undemocratic means, expropriate and siphon earnings and assets, and even find legislative loopholes to overturn legal traditions enshrining constitutional rule or private property (Cernat, 2006; King, 2007; Bohle and Greskovits, 2013; Martin, 2013). Hence, CEE societies aren't as 'infrastructurally strong' as their Western counterparts – the weakness of the state as a mere instrument of forces has created a set of institutional voids that have enabled wealth elites to yield greater power over the industrial structure and exploit

civil society. More specifically, the state is characterised by an unbinding structure of rules that creates the potential for wealth elites of exploitation and achievement of private interests.

Mann (1984) analyses the different levels of despotic vs. infrastructural power across historical state cases and comes up with a four-category taxonomy: feudal (low despotic power, low infrastructural coordination), imperial (high despotic power, low infrastructural coordination), bureaucratic (low despotic power, high infrastructural coordination) and authoritarian (high despotic power, high infrastructural coordination). Socialist CEE societies were the closest to the authoritarian ideal type. According to Mann (1984), the authoritarian type is comprised of a more institutionalised form of despotism, where the competing coalitions cannot escape the infrastructural power of the state, nor are they structurally separate from the state – this results in the creation of a configuration with high despotic power over civil society groups and the ability to enforce this power instrumentally. However, since the transition of CEE states from plan to market and their transformation into post-Socialist capitalist varieties, they have embarked on a path of convergence towards the bureaucratic type. However, historical legacies and context specificity persist and continue to influence the institutional configuration of these states – that is why to some extent we can still observe instances of despotic power of wealth elites in CEE varieties.

I will now focus on some of the shortcomings of the literature on class analysis and elites. The literature talks about the existence of a professional-managerial service class which is distinct from the intermediate and manual working classes (Goldhorpe and McKnight, 2004; Benett et al., 2008; Le Roux, 2008; Savage, 2015). According to the authors, the professional-managerial service class distinguishes itself from the mid- and low-level managerial classes, which in reality are more similar to the intermediate class. Writing within the same area of research, Khan (2010) talks about the existence of a new meritocratic performative elite culture that is oriented towards achievement and intense competitive activity. Furthermore, Liu and Grusky (2013) characterise this professional-managerial service class by emphasizing the complex analytical skills possessed by its members. The authors highlight how important an elite level education is for these social actors who are active in highly dynamic economic sectors, noting that the payout for the cognitive skills of the professional-managerial service class is far in excess than any other intermediate or working class sets of skills. My main concern here is that the conceptualisation of the professional-managerial service class is specific to

high-income developed countries. The formation of a professional-managerial service class has taken place very late in CEE societies, with the social class being in the early stages of development. Furthermore, as Myant emphasized, the newly emerged CEE varieties of capitalism of the 1990s had to start “without capitalists and without capital” (2007, 105). There were no domestic capitalists and the institutional configuration of these states lacked a domestic managerial class. The intervention of foreign capital within the industrial structure of these states triggered a process of knowledge transfer and skills upgrading, which in turn pushed the development of social stratification and the emergence of a domestic managerial class. This can be linked to the assumptions I have drawn from the path dependency, Polanyian varieties and economic geography approaches – more specifically, the fact that the formation and development of certain institutions in CEE states has been externally determined by supranational forces and transnational agents.

Other than that, these studies have a severe deficiency – they fail to extend the concept of elites to the political sphere (Goldhorpe and McKnight, 2004; Benett et al., 2008; Le Roux, 2008; Khan, 2010; Liu and Grusky, 2013; Savage, 2015). The professional-managerial service class in its conceptualisation seems to be a product solely of the economic sphere. It is true that at times the authors talk of power and influence, domination and exploitation, but not much else. There is no construction of a theoretical framework regarding the inner functioning of the political sphere, nor are the affiliations between the economic and political spheres properly unpacked.

When talking about modes of accumulation and the mechanisms at work, Savage (2015), Piketty (2014) and Grusky (2012) divide individuals into a) those who hold substantial portfolios of stock, and thus have a direct interest in the modes of accumulation, and b) those individuals who utilise their sets of skills to contribute to the strategies of accumulation employed that earn a specific return in exchange for their skills. Both of these modes of accumulation are legal and official mechanisms. We know that in advanced Western capitalist societies the upper class employs a variety of modes of accumulation that tend to be legal, or the borderline of legality, with marginal instances tending to be illegal. The institutional context of the CEE region is different – what can be seen is an upper class more willing to engage in modes of accumulation that transgress legality. Hence, the issue here is one of recognising the importance of location and consequently, the specificity of the context. The theoretical frameworks constructed by Savage, Piketty and Grusky lack this specificity, having been developed

for high-income, developed economies and thus, they cannot simply be applied to a post-Socialist context. Another thing to note here is that the capital market in CEE states is skeletally developed (Nölke and Vliegenthart, 2009; Ban, 2013).

Although I draw on a lot from Savage (2015) and it is important that I emphasise how much his study has helped me understand the differences between the wealth elite in Western capitalist societies vis-à-vis CEE post-Socialist societies, I must underline some of the main limitations of this study. First of all, the notion of class is situated within the social relations of a single national context. This means that the issues of debate that Savage focuses on are parochially British and very different from the issues of class in mainland Europe, not to mention in CEE societies. Secondly, Savage does state that class analysis is about politics; however, when conceptualising his descriptive account and classificatory proposal he fails to capture the antagonistic politics of class formation. Thus, instead of developing a relational analysis of class the author shifts to a taxonomic one. Toscano and Woodcock (2015) in their critique of Savage also highlight this point, stating that social classes and elites don't exist in a social vacuum – instead, what we see is a relationship of interdependence, where the fortunes of one order are dependent on those of another order, and furthermore, where the actions of one social group influence status of the other. Furthermore, according to Toscano and Woodcock, Savage fails to engage in relational analysis when opting to utilise the language of 'privilege' and 'advantage' and rejecting the concept of exploitation. Wright also highlights the importance of using the notions of exploitation and favouring for understanding class through his 'inverse independent welfare principle' – 'the material welfare of exploiters causally depends on the material deprivations of the exploited' (2005, 23). My study attempts to overcome these limitations precisely by recognising the role of politics and the conceptualisation of an antagonistic institutional context where politics is a central dynamic – as I have drawn from the Polanyian varieties approach – and the implementation of a relational perspective between the different categories of social actors – based on the approach taken from economic geography.

2.3 Conceptualising New Drivers of Institutional Change – Research Questions

My study seeks to provide an explanation for institutional change in the CEE region, more specifically the Romanian national variety, but I do so by challenging and stepping away from the traditional elements of change of the comparative political

economy literature. The aim is to introduce a more dynamic, historically-based, context-specific and agent-driven conceptualisation of institutional change, and in order to operationalise this approach, I hypothesise the existence of dominant elites, the presence of international forces and the role of labour as the main drivers of change.

My overarching research question is *what is the nature of institutional change in the Romanian national political economy?* and *what are the drivers of institutional change?* In order to answer this, I break the research agenda into three different sections that will unearth the elements of institutional change.

2.3.1 The Identity and Role of Elites

First, I begin the investigation by asking *who are the elites?* present in the Romanian political economy. My theoretical starting point is Cernat's concept of 'iron triangles', which defines a tightly linked dominant coalition of managers, politicians and trade union leaders (as subcoalition groups) that permeated the Romanian politico-economic context during the first decade post-Socialism (2006). However, I quickly realised that this theoretical framework is representative of a past period and has applicability to a specific historical moment, rather than covering the entire timeframe of my study. Moreover, this initial identification of elites was designed to explain the institutional configuration of the coal mining sector, and as such, does not recognise the institutional variety of other regional sectoral economies. Additionally, the concept of 'iron triangles' was constructed within an institutional context characterised by inward-orientation, the implementation of populist industrial policies, and the formation of capitalism based on domestic capital; hence, there is no consideration given to the role of external agents and foreign ownership. The emergence of new FDI-based sectors – such as business services, IT, banking and finance – and the identity of the players controlling these institutional orders cannot be explained utilising a conceptual framework that was designed to explain the inner functioning of a domestically-oriented elite structure.

Previously in this chapter, I have discussed that together elites constitute a dominant coalition, formed of multiple subcoalitions or sub-groups of power players. Furthermore, another central assumption is that the dominant coalition changes its composition and structure over time, hence elites are never static. My argument is that there is a continuous process of negotiating positionality within the coalition and the allocation of rents (North et al., 2009, 2013). The dominant coalition must constantly

pay attention to the development or emergence of existing or new subcoalitions and their accumulation of power, as there is a possibility they will attempt to displace the existing order and take control of the state. Thus, there are frequent changes in the size and composition of the dominant coalition via the exclusion of weak members experiencing a loss in legitimacy and the inclusion new strong members. Hence, my research question is *what are the changing dynamics of the dominant coalition over time?* Furthermore, to capture a holistic picture of the institutional landscape and the variegated exchanges between the different categories of institutional actors, I posit the question *how do we map out the evolution of the relationship between elite and non-elite members?*

I then go on to analyse the different institutional measures and directions driven by elites within the Romanian political economy through the three industries incorporated in my study. In order to examine this, I advance the research question *what role if any do elites play in the Romanian national political economy?* To develop a comprehensive understanding regarding the role that elites play, I look at the nature, degree, implications, timeframe and geography of these institutional players' actions over the structure and configuration of coal mining, auto and business services.

2.3.2 The Identity and Role of International Forces

Failure to consolidate a model of 'capitalism from within' in the first decade post-Socialism, resulted in Romania converging towards an economic model oriented towards the liberal spectrum that lies somewhere in-between the dependent market category specific to the Visegráds and the radical neoliberal typology identified in the Baltics. My study argues that the inflow of external actors within the national political economy has led to the formation of a model of 'capitalism from without' that depends on FDI and MNCs. Hence, my research question *to what extent do international forces explain institutional change?* is examined across each of the industries I analyse. The central focus of my study is to capture *what role does FDI play?* across the Romanian institutional configuration.

I argue for the establishing of an external order, however, my assumption is based on a principle of non-coercion. My argument is that this institutional configuration has been facilitated via the collaboration between the Romanian state and international forces. Domestic political elites facilitated the imposition of a foreign capital-oriented model of capitalism by colluding with representatives of foreign capital. While it was the foreign

elites who conceptualised and drove this liberal-integrationist institutional order, it was ultimately domestic elites who allowed and ratified the consolidation of this model of externally-driven capitalism. In consideration of the above, I posit the following research question: *who or what has facilitated the establishing of an external order?* Furthermore, just because this external order was facilitated via collaborative arrangements between domestic and foreign players does not mean that this interaction is always based on collaboration. Instead, the nature and degree of exchanges can at times be antagonistic, with domestic and foreign players having diverging institutional agendas.

2.3.3 The Role of Labour

In light of the changing Romanian political-economic structure and the continuous state of flux within the structure of the dominant coalition, I will analyse *what role does labour play across the national political economy?* This research question will be investigated across the three industries incorporated in my study. My expectation from the beginning was to obtain differently patterned institutional stories due to a variety of diverging factors: age of industry, period of active existence of the industry, orientation of the industry, mix of institutional actors permeating the context, and institutional outcome (failure, stagnation and/or success).

Furthermore, rather than statically mapping out the role of labour as an element of change at a fixed point in time, I observe the incremental modifications that labour as a social category has suffered over time by asking the research question *what is the changing role of labour?* When asking this question, I am interested in observing how the power and positionality of labour has changed over time across the institutional structure of each sector. It is essential to highlight that the position of labour will not be treated as an insular institutional concept, without any connection and affiliation to the other institutional actors and elements permeating the Romanian institutional configuration. Instead, the position of labour will be examined in a dynamic and relational setting characterised by a multitude of social actors, subcoalitions and institutions. Furthermore, one needs to understand the role of other institutional actors – the polity, capital, and international forces – in driving institutional measures and directives that influenced changes and the re-configuration of labour conditions. Thus, analysing the actors and phenomena that shifted the power and positionality of labour is an important aspect of the study.

Chapter 3

Research Methodology – The Qualitative Approaches Implemented

3.1 Introduction

I begin the chapter by emphasizing to the reader the contextual elements that spurred the initiation of this fieldwork. In the following section, I commence the evaluation of my data sites – more precisely, I analyse the ‘wheres’, ‘whens’ and ‘hows’ of my research. Here, I present the research methods that I utilise throughout my study. The research methods that I have chosen are in-depth interviewing, archival research and the collection and analysis of supplementary data in the form of online newspaper articles and technical reports. In the next section of this chapter, I describe the techniques I employed to analyse the data that I collected: first, I define the type of analysis my study makes use of; second, I discuss the frequency and timing of the analysis; and third, I present the different stages of analytical work that were employed. In the following section, I move on to discussing my research design. The elements that I have included as part of my research design are: the theory of methods I situate myself in, the case study design, the case study selection, a discussion regarding the issue of scale and the implementation of longitudinal methods.

3.2 Starting From Where I Am

According to Lofland et al. (2006), the initiation of successful fieldwork requires (at least) two elements: 1) intellectual curiosity about a particular subject and 2) gaining access to the settings and people from which we can collect the required data. What Lofland et al. want to say is that one’s research is influenced by or emerges from elements of one’s personal biography. Research can be determined by personal experiences and opportunities that allow the researcher to gain access to social settings. In other instances, social studies emerge out of curiosity spurred by academic debate, class participation and readings. Based on Lofland et al. (2006), ultimately it is when the researcher puts both elements together – intellectual curiosity and having access – that field studies emerge.

My identity as a Romanian citizen; my continuous engagement with Romanian news, the print and online press, and academic papers/texts; the interaction that I have had with individuals involved and/or interested in Romanian political and economic affairs

– all of these have provided me with a topic that I was motivated to study. These elements of current biography and social reality provided me with imperative physical and psychological access to the Romanian social setting of elites, power dynamics and industrial structures. These so-called experiences resulted in a high level of interest that gave me the motivation and curiosity, which in combination with having access, to begin my naturalistic study of the Romanian political and economic context. According to Riemer (1977), when utilising immediate biographic experiences as a springboard for commencing field studies the researcher engages in what is called opportunistic research. Lofland et al. (1984) claim that as social researchers we often make problematic in our research what is problematic in our lives.

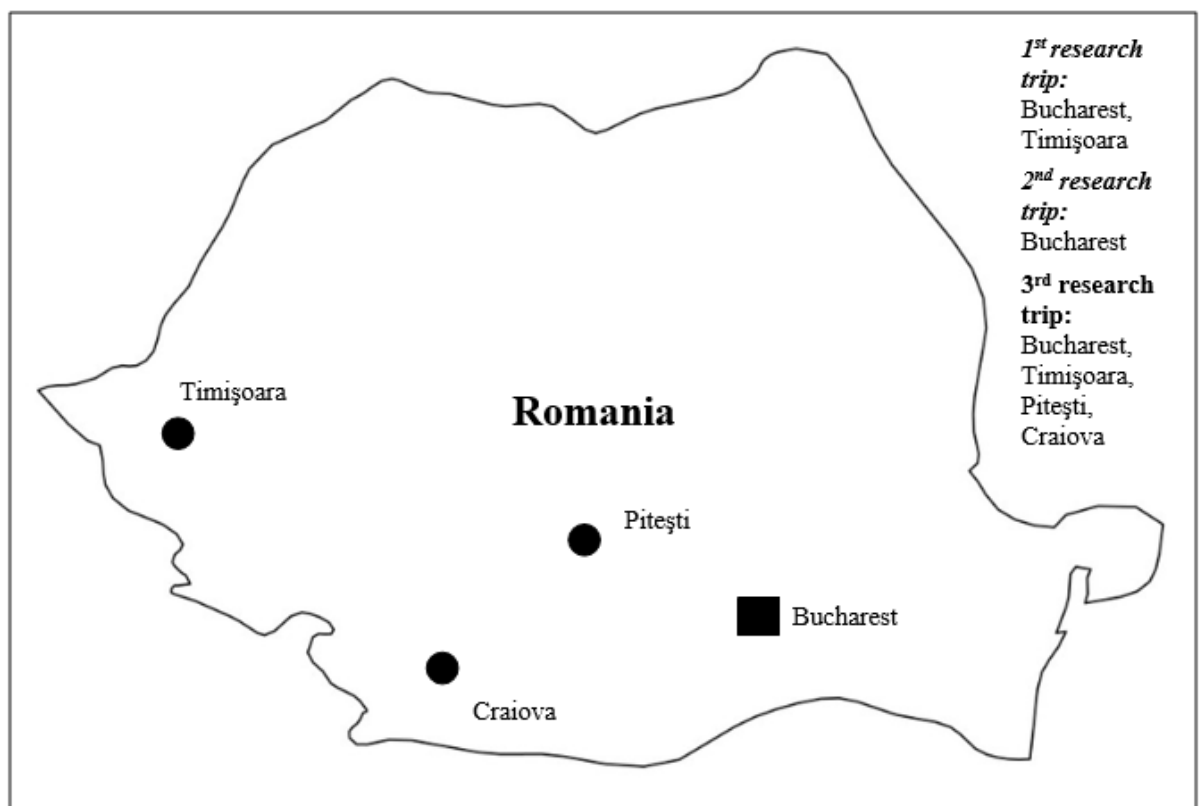
‘Starting from where I am’ can result in methodological and ethical problems. In my case, the methodological difficulties that I had to manage were avoiding bias; controlling relational closeness, which entails building relationships and rapport in the early stages of your research vis-à-vis detachment, withdrawal and taking distance as fieldwork progresses (Pollner and Emerson, 1983); refraining from telling the story (based on my familiarity with the social setting) and instead frame the story based on the analysis of the data collected. Despite the existence of some methodological and ethical issues, it is believed that ‘starting where I am’ creates the vital connections and communication between the personal/emotional side on the one hand, and the intellectual work to come on the other (Lofland et al., 2006). Without having a real foundation in personal sentiment, research can easily fall into the trap in becoming ritualistic, superficial and alienated labour (Roth, 1966).

3.3 Evaluating Data Sites

Having identified my research topic, I then had to decide how to best pursue this interest – that is analysing the ‘wheres’, ‘whens’ and ‘hows’ of the research in the most appropriate and feasible way. My overall goal was to capture rich pictures and thick descriptions about the Romanian politico-economic context (Geertz, 1973); more precisely, to understand what are the drivers of institutional change within the selected three sectors during a relatively prolonged period of time. Data collection took place between the 19th of March 2017 and 30th of July 2018, with fieldwork being organised into three separate trips:

- 1) The first research trip – took place between the 19th of March 2017 and the 30th of April 2017. In terms of analysing the ‘where’, the fieldwork was conducted in Bucharest and Timișoara.
- 2) The second research trip – took place between the 3rd of July 2017 and the 13th of August 2017. The fieldwork was conducted in Bucharest.
- 3) The third research trip – took place between the 14th of April 2018 and the 13th of May 2018. The fieldwork was conducted in Bucharest, Pitești, Craiova and Timișoara.

Map 3.1 Map of Different Data Sites Accessed in Romania



In order to obtain rich data, my study required direct and sustained interaction with the participants in the social reality or context that they operate in (Ragin and Amoroso, 2011). In this instance, in order to achieve the highest level of familiarity with the subject of the study the researcher has to opt for direct observation, engagement and involvement – thus, choosing to ‘get close’ rather than to strive for objectivity and distance. By adopting this approach of direct observation and apprehension of the social setting, my study implements a naturalistic epistemology or theory of knowledge (Lofland et al., 2006). The research method that I have chosen, which is most closely associated with the naturalistic approach for direct observation and apprehension of

phenomena within the social setting, is in-depth interviewing. Due to the historical orientation of my study, I do recognise the fact that in-depth interviewing is not sufficient and/or appropriate as a method to collect data in relation to two of my chosen sectors – coal mining and auto – due to the fact that my investigation of the two industrial orders commences in the mid-1960s. According to some authors, matters such as historical settings or events cannot be properly ‘reached’ through direct apprehension (Banks, 2001; Gilbert, 2001; Babbie, 2003, 2008; Lofland et al., 2006). Hence, to achieve a more comprehensive historical narrative and to capture those historical phenomena that in-depth interviewing was unable to account for, I utilised archival research as a complementary research method.

Thus, my study focuses on utilising mixed methods, or the systematic integration of two distinct research methodologies, to develop a comprehensive understanding about how institutional change and transformation has occurred within the Romanian political economy. The utilisation of mixed methods has permitted me to engage in a more comprehensive and synergistic form of data collection and analysis (Lofland et al., 2006). Hurmerinta-Peltomaki and Nummela (2006) argue that mixed methods add value by increasing the validity of findings, informing the collection of the second data source, and assisting with knowledge creation. Moreover, Creswell et al. (2007) state that studies which incorporate mixed methods gain a deeper, broader understanding of the phenomena that are being investigated. According to a range of literatures, the utilisation of mixed methodology increases the certainty of findings and interpretation (Sieber, 1973; Morse and Chung, 2003; Tashakkori & Teddlie, 2003; Coyle and Williams, 2000). Furthermore, other advantages resulting from the incorporation of a mixed methodology in my study include: 1) the collection of rich; 2) filling informational gaps; 3) facilitating comparison; and 4) providing methodological flexibility.

While it is important to emphasize the perceived benefit of integrating two distinct methodologies, mixed methods studies are challenging to implement (McKim, 2017). Conducting mixed methods research required additional time and resources due to the need to collect and analyse two types of data (Creswell et al., 2007).

3.3.1 In-depth Interviewing

Appropriateness

In-depth interviewing was selected as a research method due to its ability to generate rich data in relation to the themes emerging from my research questions. This form of qualitative research helped contour a comprehensive image of the Romanian national variety through the conceptualisation of three industrial branches and their internal dynamics throughout time. Implementing any quantitative approach would have only resulted in the creation of a parsimonious institutional image (Neuman, 2000; Ragin and Amoroso, 2011). Moreover, quantitative approaches favour generality (Berg, 2009), whereas the purpose of my study is to generate in-depth knowledge about the Romanian political economy as a case, focusing on its structural particularities and key moments of historical institutional change (1960s-2010s). Another argument that supports the appropriateness of in-depth interviewing for my study relates to the number of ‘variables’ utilised. In-depth interviewing created a detailed theoretical sketch of the Romanian state and sectoral internal dynamics by focusing on a multitude of ‘variables’ that uncovered nuances and subtleties. In comparison, the images constructed by quantitative approaches utilise a few variables (Dabbs, 1982; Ragin and Amoroso, 2011), resulting in the creation of parsimonious image that links few attributes or variables across many cases. In this instance, quantitative approaches assume that all cases are more or less the same with respect to how they came to be the way they are, thus ignoring the complexity and uniqueness of social phenomena.

Over a period of 15 months of research, I conducted a total of 38 interviews, out of which:

- 12 interviews were with senior representatives of the auto industry;
- 20 interviews were with senior representatives of the business services sector;
- two interviews were conducted with Chamber of Commerce representatives that had applicability for all three industrial branches, with one representative having a senior role in the Romanian Chamber of Commerce, whereas the other was a member of the Romanian-Italian Chamber of Commerce;
- one interview was conducted with a senior organised labour and social dialogue representative that had applicability on all three industrial branches;
- one interview was conducted with a historian and Socialist regime specialist that had applicability for the coal and auto industries;

- one interview was conducted with a representative of the state specialised in subsidies that had applicability for auto and business services;
- one interview was conducted with a specialist in the auto industry and Romanian industrial relations who works for a consulting firm exclusively dedicated to employee representatives and organised labour.

Interviews were conducted during the first and third research trip.

Table 3.1 Interview Participants for the Car Manufacturing Sector					
Interviewee Role/ Position	Sphere of Influence	Institution	Location of Interview	Date	Length
Minister of Machinery Construction; Deputy Minister of Machinery Construction; Vice President of Government	State level	Ministry of Machinery Construction; Central Committee of the Romanian Communist Party	Bucharest	04.05.2018	71 mins
Dean	Educational level	Auto Engineering University Pitești	Pitești	05.05.2018	52 mins
Head of Relations with the State	Company level	Dacia/Renault	Bucharest	07.05.2018	53 mins
Director of Engineering	Company level	Dacia/Renault	Bucharest	23.04.2018	51 mins
Director of Commerce	Company level	Dacia/Renault	Bucharest	25.04.2018	56 mins
Director of Industry/ Production	Company level	Dacia/Renault	Bucharest	26.04.2018	50 mins
Director of Quality	Company level	Dacia/Renault	Pitești	01.05.2018	74 mins
Director of Export	Company level	Dacia/Renault	Pitești	01.05.2018	70 mins
General Director	Company level	Dacia/Renault	Pitești	01.05.2018	74 mins
Director of Production	Company level	Olcit/Daewoo/Ford	Craiova	03.05.2018	58 mins
General Director	Company level	Olcit/Daewoo/Ford	Craiova	03.05.2018	70 mins
Director of Engineering	Company level	Olcit/Daewoo/Ford	Craiova	03.05.2018	75 mins

Table 3.2 Interview Participants for the Business Services Sector					
Interviewee Role/ Position	Sphere of Influence	Company	Location of Interview	Date	Length
Dean	Educational level	Polytechnic Timișoara, Faculty of Automatics and Computers Science	Timișoara	10.05.2018	55 mins
Vice Dean				11.05.2018	51 mins
Director of EU Operations	Company level	Ipsos	Bucharest	22.03.2017	54 mins
Vice President, Global Vendor Management Office & EU Project Management				04.04.2017	51 mins
Vice President of Production				04.04.2017	67 mins
Global Vice President Global Operations				05.04.2017	72mins
Director of Operations		IBM	Timișoara	20.04.2017	54 mins
Finance Director				21.04.2017	56 mins
CEO		Accenture	Bucharest	25.03.2017	50 mins
Multimedia Site Manager		Nokia	Timișoara	19.04.2017	72 mins
Head of R&D				19.04.2017	75 mins
Head of Outsourcing		HP	Bucharest	08.04.2017	53 mins
Director of Sales				08.04.2017	51 mins
CEO		Veeam	Bucharest	11.04.2017	49 mins
CEO		Microsoft	Bucharest	19.04.2017	50 mins
CEO		Wipro	Bucharest	05.04.2017	49 mins
CEO		Genpact	Bucharest	30.03.2017	51 mins
CEO		Stefanini	Bucharest	06.04.2017	58 mins
Application Management Lead		Endava	Bucharest	24.04.2018	52 mins
Head of Applications Management				24.04.2018	50 mins

Table 3.3 Supplementary Interview Participants – Representatives of the State, Educational Sphere and Labour Sphere						
Interviewee Role/ Position	Sphere of Influence	Institution	Interview Applicability	Location of Interview	Date	Length
Head of Economic Development Strategy	State level	Romanian Chamber of Commerce and Industry	Coal Auto Business Services	Bucharest	18.07.2017	52 mins
General Secretary	State level	Romanian-Italian Chamber of Commerce	Coal Auto Business Services	Bucharest	07.04.2017	49 mins
Director of the Social Dialogue Direction of the Ministry of Labour	State level	Ministry of Labour	Coal Auto Business Services	Bucharest	05.04.2017	77 mins
Specialist in Accessing State Subsidies	State level	Invest Romania	Auto Business Services	Bucharest	04.05.2018	50 mins
Historian and Communist Regime Specialist	Educational level	NA	Coal Auto	Timișoara	23.04.2017	58 mins
Consultant in Industrial Relations	Labour level	Syndex Romania	Auto	Bucharest	27.04.2018	75 mins

Table 3.4 Interview Coding System utilised in the Thesis	
Interview Code	Explanation
A_number	‘A’= Auto sector interview participants; to avoid the potential identification of my research interviewees from the auto sector, interviews were allocated a number from 1 to 12 (12 total interviews in the auto sector).
BS_number	‘BS’= Business Services sector interview participants; to avoid the potential identification of my research interviewees from the business services sector, interviews were allocated a number from 1 to 20 (20 total interviews in the business services sector).
S_number	‘S’= Supplementary interview participants; to avoid the potential identification of my research interviewees from the political, educational and labour sphere, interviews were allocated a number from 1 to 6 (6 total interviews in the political, educational and labour sphere).

All interviews with the exception of one interview carried out with the CEO of Wipro were carried out in the Romanian language, the remaining exception was carried out in English. Interviews were relatively lengthy, lasting between 50 to 75 minutes, depending on how rich and detailed the respondents' answers to my pre-determined questions were, as well as the quantity of probes that I introduced. Considering the elite roles and senior positions that my respondents held, I had to limit my interviews to more or less one hour as these individuals have very limited time (Conti and O'Neal, 2007; Stephens, 2007). In terms of the interview structure, I opted for a semi-standardised or semi-structured format. This entailed the design and implementation of a number of pre-determined questions and topics that were asked of each of my candidates from a specific sector (and company in the case of auto) in a systematic and consistent way (Berg, 2011). The implementation of a structured schedule allowed me to make comparisons across interviews and to identify major recurring themes (Newmann, 2007), such as the historical turning points of each individual sector, the central players permeating the internal dynamics, the structural problems plaguing the industrial orders during the Socialist regime, the role of international influences and the effects of foreign capital, and the changing role and position of (organised) labour vis-à-vis other players. The relative flexibility of the semi-structured format allowed me to be receptive to new ideas brought up during the interview and to pursue these new areas with probes.

Sampling

In terms of the sampling strategy employed, I utilised snowball sampling or chain referral sampling (Penrod et al., 2003; Owens, 2005; Berg, 2011). In this instance, snowballing was the most appropriate sampling strategy because it allowed me to locate subjects with the 'elite-like' characteristics and roles/positions necessary in the study. According to Lee (1993), snowballing strategies are especially relied upon by social scientists who study sensitive topics, difficult to reach populations and elite-oriented classes.

I was granted initial access to the research setting by a gatekeeper or guide – an executive director at Ipsos – that I had established in 2014, when I was conducting the fieldwork for my Masters dissertation. After the finalisation of my Masters, we kept in touch and in January 2017, I contacted him again to explain the purpose of my new research study and to ask him to facilitate access to potential informants. This gatekeeper and informant holds a pivotal position in the hierarchy of one of the top

business services MNCs in Bucharest and has been involved in the institutional configuration of this sector since its inception in Romania. After I initially interviewed him, the gatekeeper introduced me to three other participants within his organisation – also at a very senior directorial level – vouching for my legitimacy as a researcher and the novelty value of my project. Furthermore, he asked these three participants to act as guides themselves and to help me gain greater access to the social setting, by gaining the further cooperation of informants.

In terms of the sampling strategy utilised for gaining access to the auto industry, I relied upon another non-probability sample that is very similar to snowballing – convenience sampling or availability sampling (Mutchnick and Berg, 1996; Babbie, 2007; Polit and Beck, 2007; Berg, 2011). What this category of sample entails is that I chose someone who is very close to me to act as a gatekeeper. This gatekeeper holds a hierarchically superior role within the institutional structure of Romanian auto and has been working within the industry since the late 1970s. This person provided me with very rich preliminary information regarding what players from the industry I should speak to, as well as shedding light on some of my research questions and what other areas of questioning I should pursue during the interviews. The gatekeeper put me in touch with an executive director at Dacia/Renault, asking him to act as an interviewee and to further facilitate my access to other potential informants that currently play a role within the structure of Dacia or industry representatives that were active during the Socialist regime.

I attempted to secure access on my own to Olcit/Daewoo/Ford by sending emails and calling the General Secretariat; however, I was unsuccessful at securing any informants. In order to gain access, I contacted one of my gatekeepers – a current executive director at Dacia/Renault – who I knew had multiple contacts at Olcit/Daewoo/Ford, because he had mentioned this during our interview. I confirmed what type of informants I require in terms of the managerial level and emphasized my need to also speak with individuals that were present within the organisation during the Socialist timeframe. My gatekeeper secured me three interviews with central Olcit/Daewoo/Ford players – the Director of Production, the Director of Engineering and the General Director. Furthermore, he also suggested that it would be “very useful and interesting for me” to speak to the person who handles and manages the relationship between Dacia/Renault and the Romanian state.

I secured my interview with the consultant in industrial relations working at Syndex Romania by utilising a snowball sample. My supervisor put me in contact with one of the authors that I have substantially referenced in my literature review – Jan Drahokoupil. Dr. Drahokoupil is a specialist in CEE transition economies, MNCs, and works for the European Trade Union Institute. I contacted Dr. Drahokoupil via email, explaining what my research is about and the difficulty that I encountered in speaking to members and leaders of auto trade unions. Getting access to trade union representatives was a significant challenge, with all of my attempts being unsuccessful. Dr. Drahokoupil recommended I should speak with a Romanian informant, who is a specialist in Romanian employment relations and has contacts at both Dacia/Renault and Olcit/Daewoo/Ford. I emailed him, stating that Dr. Drahokoupil had referred me and highlighting the access obstacles that I was facing. The informant claimed that he is well aware of the problems of access and that the trade unions at both companies are highly reluctant to speak to researchers. Issues of access will be discussed in more detail later. The informant provided me with two contacts: the former trade union leader at Ford, who refused to speak to me, and a consultant in industrial relations working for Syndex Romania, who as a matter of fact did his PhD on the Romanian automobile industry.

I organised the two remaining interviews by myself, without utilising snowball sampling or convenience sampling. These interviews were conducted because of the informational gap within my overall data collected, as well as the necessity to either corroborate some data or to add further clarification to some topics. I required speaking to a specialist in the Socialist regime, in order to be able to sketch out what are the historical turning points for the Romanian variety, as well as the evolution of the coal and auto industries during that regime. Furthermore, I required speaking to a specialist in state relations and the state subsidy system. I contacted via email the following institutions: Romania Insider, Invest Romania, the European Commission in Bucharest and the Ministry of Finance. Additionally, I also contacted the Ministry of Business Environment, Commerce and Entrepreneurship. A secretary from the general office of the Ministry of Business Environment, Commerce and Entrepreneurship put me in contact with a consultant on accessing state subsidies from Invest Romania, which is a foreign investors' problem solving hub or consulting body working in collaboration with the above-mentioned ministry.

Issues of Access

I will now move on to discussing the issues of access that I have encountered. Hunter (1995) claims that due to the ‘elite status’ of some participants, elite-oriented studies are referred to as “studying up” – this is to reflect the different methodological and ethical issues that arise that are not present when studying non-elite populations. Shenton and Hayter (2004) argue that for qualitative researchers who study elites one of the obstacles is the issue of gaining access. In a similar line of research, Hertz and Imber (1995) examine the different range of problems associated with conducting fieldwork in elite settings. The authors suggest that the reason why there are so few studies of elites is precisely that their very nature is difficult to penetrate. The literature highlights that elite subjects purposefully create barriers to block researchers and journalists – a characteristic that distinguishes them from other populations (Laurila, 1997; Welch et al., 2002; Shenton and Hayter, 2004). Laurila (1997) emphasizes that elites may be visible to the researcher; however, that does not mean that they are necessarily accessible. Hence, Mikecz argues that in order to gain access to elite subjects a careful process of negotiation has to be carried out, which will take a longer time and have higher costs than any non-elite study (2012).

I found that this was not the case with the business services sector. I would argue that business services has low access issues to researchers and journalists. The sector is defined by a high degree of transparency in comparison to manufacturing-oriented industrial branches or any domestically-owned sectors. The people that I spoke to displayed a high level of interest in my research study, as well a high willingness to act as informants and/or facilitate the cooperation of other potential participants. In terms of communication, it was very easy to get in touch with them. Initially, we communicated via email. They replied very promptly to emails. Participants showed no reluctance to give out their personal mobile numbers. It is important to emphasize that one can easily find the details of these individuals online: company websites, ABSL website, linkedin and other professional social media platforms. Furthermore, participants were very flexible when it came to arranging the interview in terms of date and location.

If we visualise the issue of getting access on a spectrum, the coal mining and auto industries are situated at the opposite end of the spectrum from business services. Despite the utilisation of convenience and snowball sampling strategies, the process of gaining access was very difficult and took a large amount of time. The individuals from these industries displayed a high (auto industry) to complete (coal mining industry)

level of reluctance to speak to me. There was one instance when upon contacting the leader of a trade union for an interview based on a gatekeeper's referral, the individual claimed that he has never held this position and that he has no knowledge of what I am speaking about. Furthermore, there is a low level of transparency that defines these industries – more precisely, identifying who the key players are is an issue in itself (Mikecz, 2012). Obtaining personal details and contacting these players is another obstacle, as contact details are not available online and obtaining them is a very difficult process. In order to get in touch with these people you have to know the right person or have very strong ties to the industry. According to the literature, social researchers have to select the appropriate media in order to contact elite subjects (Conti and O'Neal, 2007; Stephens, 2007; Mikecz, 2012). Contacting these individuals via the traditional media – telephone and email – is not possible. Getting in and establishing contact is only possible if you have personal ties to these players or if someone calls on your behalf and facilitates an introduction. In contrast to the informants from the business services sector, the participants from the coal and auto industries displayed no flexibility when it came to organising the interview. As Conti and O'Neal (2007) and Stephens (2007) emphasize, it is up to the researcher to be flexible. This is also in line with the research on the difficulties of interviewing elites (Conti and O'Neal, 2007; Stephens, 2007; Mikecz, 2012).

Managing Relations

Once the issue of access to the social setting was resolved, I had to consider the issue of managing relations or 'getting along' with my elite participants. According to Laurila, "the mere arrangement of interviews does not mean establishment of successful research contact with the managers" (1997, 411). In order to achieve trust and rapport, I had to be familiar with the interviewees' norms of behaviour, adopt the appropriate interview/context etiquette and demonstrate that I held a considerable amount of knowledge about their sectoral/institutional context (Conti and O'Neal, 2007; Stephens, 2007).

The issue of my positionality as a researcher was also considered. I am aware that quite often elites will try to influence the interview situation to the point of dominating the discussion and challenging the researcher's views or line of questioning, as well as influencing the quality and quantity of the information given (Welch et al., 2002; Mikecz, 2012). To mitigate this negative externality, I did extensive research on the sectoral/institutional specifics, the participant's organisation and I tried to find as much

information on the participant himself. Studies indicate that preparation for elite interviews is vital (Zuckerman, 1972; Berry, 2002; Harvey, 2011; Thuesen, 2011). A higher level of preparation will improve the researcher's positionality vis-à-vis the elite interviewee, increasing the "seriousness of the interviewer" (Zuckerman, 1972, 164) and building themselves "positive image in order to gain the interviewer's respect" (Harvey, 2011, 434). This will reduce the interviewee's ability and potential willingness to control the interview and to manipulate information. However, there were a few instances in which I felt 'tested' by the interviewees who became very technical by discussing topics heavily oriented towards engineering. Welch et al. (2002) highlight that the social researcher can often find himself to be patronised by elite subjects.

As a result of the level of power, knowledge and control over the level of 'insider information' to be disclosed, the researcher's self-presentation and image before elite subjects is crucial (McDowell, 1998). According to the literature, "self-promotion contributes to gaining formal and personal access and fostering individual rapport" (Okumus et al., 2007, 15). As I have mentioned in the beginning of this chapter, my background as a researcher and the characteristics that I display have a considerable effect on the dynamics of the interview. My identity as a Romanian citizen and my continuous engagement with these topics constituted an advantage – the distance between myself as a researcher and the social setting is reduced due to the quasi-insider identity that I possess. According to Sabot (1999), an outsider or someone lacking an 'inside view' is not as well placed as a 'local' to collect, understand and analyse the data obtained.

Furthermore, in the context of any former Socialist CEE state, anything that is imported or comes from high-income Western economies is viewed with admiration and is attributed a superior level of quality. Hence, to gain the credibility of my elite participants and to reduce status imbalance, it was crucial for myself as a researcher to emphasize my academic, professional and institutional credentials and affiliations gained in the UK. Having the appropriate credentials and representing an academic system from the 'right' type of country was necessary for me to gain access, but also to gain the respect and trust of my participants (Zuckerman, 1972).

Moreover, the fact that I am both a Romanian citizen and a foreign researcher makes me both an insider and an outsider. This provides me with both proximity, emotional involvement and engagement with the social setting, as well as a certain level of

distance from the studied phenomena that allows me to have a clear and unbiased perspective – the concept of keeping critical distance (Mikecz, 2012). What this clearly shows is that my positionality as a researcher is not a rigid, pre-determined aspect of my identity, instead it is fluid. These two identities – insider and outsider – do not form a dichotomy, but rather my identity should be viewed on a continuum, and while I am in the field, I need to shift my positionality in order to ensure I have successful research contact with my participants. Based on Sabot (1999), elites will engage differently with fellow compatriots and foreign researchers. The findings of Sabot's study indicate the fact that foreign researchers are trusted more, because they do not pose such a big threat to the participant's status and position, primarily because the work will be published within a different country. To this, I would like to add the fact that in Romania all Romanian researchers are viewed with suspicion by elites either because elites believe that the researcher will run to the press with the information gained or simply because they suspect the researcher is not in fact a researcher but a journalist. Consequently, my partial outsider identity together with this higher level of attributed seriousness placed me at an obvious advantage vis-à-vis Romanian researchers in terms of not only gaining access, but also having more leeway with my conduct during interviews. Ostrander (1995) actually claims that researchers should not be afraid to ask sensitive questions, even if these overstep the bounds of interview etiquette, as this decreases the perceived power and status gap between the social scientist and the elite player.

A common assumption of studies centred around elite players is that the position of the elite interviewee is more powerful than that of the researcher. I found this to be true. My participants fell into the category of "ultra elites" – that is, when analysing their institutional role and position they are or used to be the "most highly placed members of an elite" (Zuckerman, 1972, 160). Furthermore, the majority of my participants were male, with only two out of the sample of 38 informants being women. As a result, I also had to consider my positionality as a 28-year-old woman researcher vis-à-vis a group of very powerful men who were in their 40s to even 80s. Romania is still a patriarchal country, where men hold primary power and predominate in roles of political leadership, moral authority, social privilege and control of property. I found that once the preliminary discussion before the interview and the standard initial questions were over, my research candidates perceived the interview as an opportunity to have an informed discussion. Moreover, they were extremely gallant and I felt they made a real

effort to impress me by offering unsolicited pieces of information, advice and further cooperation.

Emotional Risks

In addition to the several difficult elements of the social setting that made gaining access and managing relations problematic, my research setting was problematic in another way. I experienced an entire range of emotions during my ethnographic fieldwork. There is increasing acknowledgement that social researchers undergo emotional distress while carrying out fieldwork (Lofland et al., 2006). Shaffir and Stebbins (1991, 1) have argued in the introduction of their book *Experiencing Fieldwork* that “Fieldwork must certainly rank with the more disagreeable activities that humanity has fashioned for itself. It is usually inconvenient, to say the least, sometimes physically uncomfortable, frequently embarrassing, and, to a degree, always tense.”

First of all, in the months before my fieldwork trips I suffered from anxiety and fear of failure, because I was unsure if I could gain access to a sufficient number of informants and to the historical materials that I required. Furthermore, I was very frustrated and surprised by the fact that these elite players cannot be contacted via the traditional channels. The stark contrast between the business services sector, which was characterised by complete transparency and accessibility, and the coal and auto sectors which were almost completely sealed off, made me consider the fact that a comprehensive institutional study of the latter two might not be possible. There were instances in which I actually considered whether I need to drop coal and auto and select two other industrial orders defined by a greater degree of access. The fact that coal and auto were so problematic made me even question my ability to complete my thesis and whether I had made the right decision to select this research project.

Lofland et al. (2006) claim that the researcher’s emotions towards their participants can be displayed on a continuum ranging from extreme distance at one end to complete surrender at the other end. Thus, the researcher can experience feelings of loathing, marginalisation, sympathy and identification towards their participants. There were instances in which I disliked my participants because they attempted to control the interview or they appeared to be testing my knowledge and level of preparation. During my preparation for the interviews, I experienced moments of dislike when I was researching my candidates and came across negative online articles in which they had been involved in corruption scandals and criminal cases. Other instances when I

experienced negative feelings towards my interviewees include when two of my candidates showed up very late to the interview and attempted to shorten it by only briefly responding to the questions.

Contrastingly, there were instances in which I identified with my interviewees, thus shifting my position to the surrender end of the distance-surrender continuum (Lofland et al., 2006). These were mostly the participants originating from the business services sector. These individuals had been very good students during their life, the majority of them had achieved at least one if not multiple qualifications abroad, they spoke at least one foreign language, they believe in information transparency and accessibility, and they valued research. Lofland et al. warn that if identification occurs, it will be difficult for the researcher to take a step back and analyse what has been heard and observed in an objective way. Other authors have drawn attention to the fact that identification can lead to “over-rapport”, “over-identifying” and even “converting” (Miller, 1952; Schwartz and Schwartz, 1955; Gold, 1958; McCall and Simmons, 1969). I discovered that this consequence materialised when I was writing the first drafts of my business services chapter. Instead of having a critical lens and applying it to what my interviewees were saying, I was simply restating their claims and taking their words at face value. Snow (1993) argues that the temptation to take and reflect the vantage point of your participants is especially likely to happen when you write immediately after exit from the field. As Snow highlights, I found that the passage of time provided me with the necessary distance to develop a functioning critical lens to analyse what was said and what was observed. Furthermore, the different iterations of my business services chapter allowed me to reflect on and distinguish between what was actually happening within the social setting and what my informants thought was happening and their perception of the social reality.

Once I secured the initial access, I started experiencing a sense of information overload (Lofland, 1977; Snow, 1993; Lofland et al., 2006). This occurred during both in-depth interviewing and my archival research. In discussing the interviewing procedure, I felt that there were so many elite players that I had to get in touch with and find out what was their opinion and how they interpreted social reality. Because of this, I started to have doubts about my observational abilities and questioned if I could capture the richness of the social setting. Lofland et al. argue that what is phenomenally interesting and theoretically important is most likely to present itself repeatedly and/or remain relevant (2006). Also, I realise that as a result of the prolonged and sustained

engagement, the persistent and systematic observation (Lincoln and Guba, 1985; Weick, 1985), the corroboration of interview data with historical archives and a systematic review of technical reports and press articles, means that it is very unlikely that I missed any of the major social phenomena and events that are scientifically interesting and theoretically important.

Ethical Issues and Consequences

Within the context of data site evaluation, there were three important and interlinked questions that I had to consider from my position as a researcher. First of all, should this particular group (elites), setting (Romanian political economy via sectoral structures – coal, auto and business services) and situation (institutional change) be studied? Second of all, should this group, setting and situation be studied by me? And thirdly, what measures must I take to avoid any potential negative consequences that the research and its publication might have for the different stakeholders involved in the research – the elite participants, myself and the institution I am affiliated with.

With respect to the first question, this is not a case of research on an oppressed, endangered or less powerful group (Tunnell, 1998), nor is it a case of covert research that involves the deception of the studied population by the researcher (Bulmer, 1982; Allen, 1997; American Sociological Association, 1997). Hence, the answer to the first question is that the group, setting and situation should be studied. With respect to the second question, I concur that I have the intellectual curiosity, access, academic preparation, as well as conscientious concern with ethical and methodological protocols for the protection of my interviewees. Ergo, the answer to the second question is also affirmative. In relation to the third question, I will perform an evaluation of the ethical concerns and discuss the different management strategies I employed.

The Belmont Report was written as an “analytical framework that will guide the resolution of ethical problems arising from research involving human subjects” (National Commission for the Protection of Human Subjects of Biomedical and Behavioural Research, 1978, 1). However, recognising the fact that the Belmont Report is intended for biomedical and behavioural research leaves the researcher with the problem of reconciling the principles and applications of the Report with the realities of social research (Ragin and Amoroso, 2011). At best, this means that I will utilise the Report as a guide when considering the ethical concerns of my study, and apply its principles selectively based on their appropriateness for social research.

One of the central obligations that ethnographic researchers must have is respect for persons or the human subjects they study. Respect for human subjects means that your informants enter the study voluntarily and appropriately informed. To prove that all my participants are entering the study voluntarily and adequately informed, I obtained informed consent from all 38 interviewees. In order to obtain consent, I explained the research procedure, purpose, risks and benefits in a jargon-free language to each individual interviewee.

3.3.2 Archival Research

The second research method that I used in my study includes the collection and analysis of a range of written historical materials that are accessible to the public (Denzin, 1978; Lofland et al., 2006). The archival collection that I used is the National Romanian Archives located in Bucharest. Access to the Archives has become public since 2009, when the declassification of state records took place. This makes the National Romanian Archives a collection of official documentary records that were originally produced for some special limited audience that was then taken from the private to the public domain. The public has now access to any state-, industry- and labour-related historical documents, historical and geographical studies, treaties, letters between heads of state, government policies and bills, transcripts of state meetings, trade agreements, barter dealings etc. dating back to the early 1800s until 1989, which marked the fall of the Communist regime. The Archives in Bucharest also host the entire collection of documents of the Romanian Communist Party and the Central Committee, making it a central source of information for the historical part of my study, primarily the coal and auto industries.

Considering the access problems I had in securing interviews with auto sector representatives but especially elite figures from coal mining, archival records acted as a complementary source of data to my interview data, as well as being used to corroborate information that was provided in the interviews. Furthermore, because of their historical orientation archival records were utilised as the primary source of information for shaping and contouring the timeline of events and historical turning points between the 1960s and 1989 – that is the Socialist period of industrial activity – of coal and auto.

Archives are considered an important category of “unobtrusive measures” (Plummer, 2001), because they offer large quantities of inexpensive data (Berg, 2009), they are relatively non-reactive to the presence of researchers (Webb et al., 1981) unlike in-depth

interviews that pose a variety of methodological and ethical problems as I showed above, and they are attractive because they use some standardised format and filing system that makes it easy to identify and locate pieces of information (Lofland et al., 2006). In comparison to in-depth interview, archival research was somewhat easier to ‘navigate’ as a research method; however, I would not go as far as to argue that this research method has very few methodological and ethical problems vis-à-vis in-depth interviewing. Instead, I would like to emphasize that archival institutions within the current Romanian context very much still reflect the structural and procedural problems of the former Socialist regime – being very slow and cumbersome to navigate, with many unclear bureaucratic hurdles.

Collection of Data

The sections of the archival records that I looked at and collected data from are: 1) the Central Committee of the Romanian Communist Party, the Ministry of Exterior Commerce, the Import-Export Direction; 2) the Central Committee of the Romanian Communist Party, Economic Section; and 3) the Central Committee of the Romanian Communist Party, Chancellery Section. The types of documents that were gathered include: contracts of incorporation; import and export contracts for parts, components, tools, machinery, licenses and technical documentation; working session transcripts with senior officials of the Central Committee and industry-related representatives; industry performance analyses; reports on capacity expansion and production maximisation; Five Year Plan reports; technical reports focusing on strategies to implement an import-based industrial plan; technical reports focusing on strategies to implement an industrial plan based on developing internal production capacities; organisational and labour reports focusing on labour conditions, labour force expansions, restructuring, work conflicts and accidents; reports on industrial qualification programmes, the organisation of training schemes abroad, and plans to expand educational and training programmes in support of industrial activity. The historical materials that I collected and analysed cover the time period 1965 to 1989.

Issues of Access

In order to gain access to the archival records, I had to make a formal application at the institution’s Secretariat to request ‘research access’ for the Study Room of the National Romanian Archives. The formal application entailed the completion of a hard-copy form with my personal details: name, National Identity card/passport information,

profession and institutional details. The form was then submitted at the Secretariat for review. I obtained the researcher access card within three working days.

Prior to my visit to the Archives, I looked at the online catalogue and directory to understand what kind of data was stored in the Archives, how the data was stored into collections and which were the collections of interest to me, and I tried to identify what kind of data was missing (Bradley et al., 1979; Berg, 2009). I did so by utilising the e-catalogue search tool and inputting key words such as: '[coal mining/auto] plan', '[coal mining/auto] industry report', 'coal production', 'coal in Jiu Valley', 'opening of pits', 'Dacia', 'Olcit', 'contract with Renault', 'contract with Citroën', 'export of automobiles', 'Ministry of Mining', 'Ministry of Machinery Construction'. This preliminary investigation revealed the collections that were most appropriate for my study – the Import-Export Direction, the Economic Section and the Chancellery Section – whose individual catalogues I had to review more closely.

Upon my first visit to the Study Room, I requested the hard copy catalogue of the Central Committee of the Romanian Communist Party, the Ministry of Exterior Commerce, the Import-Export Direction. The catalogue lists the entire documentation specific to the Import-Export Direction between 1947 and 1989. I reviewed all the document titles and the attached summary/description for each individual artefact covering the timeframe 1965-1989. In order to have access to the documents, I had to submit an order sheet to the Study Room custodian. The order sheet contained the following details regarding the archival document requested: name of ministry issuing the document, name of direction/section issuing the document, unique identification number, year of issue and issue number. Every researcher is allowed up to ten files per order. Once the order is placed the files are delivered within two working days from the National Archival storage facility, which is situated in a different location in the south of Bucharest. Researchers are allowed to place more file orders as they turn in the files that have been investigated and are no longer of use. When the files arrive, the researcher needs to verify and make sure the order is correct – the files are counted and checked against their ministry title, direction title, unique ID, year and issue number by the researcher in the presence of the custodian. If the order is correct, the researcher has to sign that he or she is taking ownership of the historical files, which means that he or she will be responsible for the documents if they are damaged or stolen. Ownership of the files ends when they are returned to the custodian. At the end of a visit to the

Archives, upon exiting the research setting, the researcher has to lock his files in one of the designated storage facilities in the Study Room.

Once I finished reviewing and studying the content of the Import-Export Direction, I proceeded in the same way with initially, the Economic Section, and then the Chancellery Section – first, I reviewed the catalogue list between 1965 and 1989, then I submitted the order sheet, I waited for the order to arrive and I systematically reviewed the contents of each file.

Because of the richness of the data, I made multiple orders for each of the three collections I utilised in my study. To speed up the process of obtaining the files, once I finalised reviewing a file I immediately turned it in, in order to be able to place a new order for another archival document. Despite this system of continuous document rotation that I attempted to implement, getting access to the archival records proved to be very lengthy and slowed down the research process. Another prohibiting aspect constituted the fact that none of these historical documents can be found online; hence, research cannot be carried out unless the investigator goes through the process of gaining research access and then makes physical visits to the Study Room, following the process that I described above. Furthermore, an additional aspect that made access problematic is the fact that researchers are not allowed to check out any artefacts and may only consult them on-site under staff supervision and CCTV. The unique, fragile, or sensitive nature of the materials requires certain levels of restriction on their use, handling, and/or duplication. More specifically, only some archival records are allowed to be photographed or photocopied. For those allowed to be duplicated, the researcher has to submit a written formal request to the custodians and pay a fee at the post office. In my situation, none of the collections I selected were allowed to be photocopied or photographed, instead I was only allowed to take hand-written or computer-written notes on my personal laptop. The Archives also restrict what kinds of items can be brought into the Study Room from outside, such as bags, clothing, mobile phones and cameras, to guard against theft, duplication or risk of damage to materials. Notebooks, diaries, scrap paper, writing equipment and your research access card are the only items allowed inside the Study Room. Researchers are required to deposit all prohibited items in a locker situated outside the Study Room in the reception of the Archives.

Despite the fact that state records were declassified in 2009 and since then, the collections of the Archives have become public, there are some files within the

collections I examined that are still classified due to their status of national industrial importance. These were primarily related to the main car manufacturing organisations – Dacia and Olcit. This made the issue of access even more difficult, because these restricted files were related to my study’s historical turning points. The inability to access this information made me think about the historical materials I am potentially missing. Eventually the review of other unclassified files with similar themes, the data collected in my interviews and the systematic reading of newspaper articles helped me fill in the informational gaps.

The slow process of obtaining files in conjunction with the slow process of collecting/recording data in the form of notes rendered the setting difficult and access a troublesome undertaking (Shaffir et al., 1980; Friedman and Orru, 1991; Lofland et al., 2006). Access is further restricted by the fact that the National Archives are a state-owned institution with rather limited opening hours – more precisely, the Study Room is opened Monday, Wednesday and Friday from 08:30am to 03:30pm, and Tuesday and Thursday from 08:30am to 07:00pm. However, I want to emphasize that it is likely that on the days that the Study Room is opened until 07:00pm and on Friday the custodians might pressure the investigators present to leave earlier, with the justification that: “tomorrow is another day” or “some of us would like to go home”.

During my third research trip, access was further impeded by an unexpected and unannounced occurrence in the research setting – the National Archives were closed for renovation on the 27th of April 2018 for, what was at the time, an indefinite period. The custodians communicated the unplanned renovation to researchers, while we were in the Study Room on the 25th of April. Because of this, I was forced to reduce my archival research by about one week. However, I believe this had marginal effect on my research, as I had already identified all the major historical moments that were scientifically interesting and theoretically important, and had reached information saturation and the reiteration of themes.

Managing Relations

Gatekeepers are defined as people or groups who are in positions to grant or deny access to a research setting (Feldman et al., 2003; Hagan, 2006; Berg, 2009). Furthermore, gatekeepers or guides are indigenous people found among the group or in the setting to be studied (O’Leary, 2005). I would argue that in the context of my archival research the existence of gatekeepers granted me better access to the research

setting through the provision of guidance on where to look for information and how to make sense of the information contained within the historical files. In this instance, the custodians acted as gatekeepers, or the formal watchdogs who protected the institution sought as the target of research – the National Romanian Archives. These individuals held pivotal positions within the institution I sought to study; and although, they were not high up the hierarchical ranking as the gatekeepers utilised for my in-depth interviewing or the elite players involved in interviews, they possessed invaluable knowledge regarding the historical data held within the Archives in terms of its content, organisation and the access procedures.

Emotional Risks

While being immersed in fieldwork, field researchers have been routinely confronted with tensions, as well as settings and situations causing emotional distress (Howell, 1990; Shafir and Stebbins, 1991; Smith and Kornblum, 1996; Lofland et al., 2006).

The process of conducting archival research was generally complex and very time-consuming. I experienced feelings of frustration, anger and anxiety due to the challenges of identifying and locating the relevant historical documents, despite the existence of a standardised classification system. Furthermore, I felt a genuine sense of frustration with the overall research process and the internal rules of the Archives.

Similar to in-depth interviewing, I experienced a feeling of information overload, as a result of the large amounts of archival materials. This occurred twice: the first time was when I was trying to determine which files were appropriate for my research study when reviewing the archival catalogues, and the second time was when I was collecting/recording data by taking notes. I have already discussed my first instance of information overload – the problem was that there were too many files and I had to select the ones that were of central importance to my study. Additionally, the files were very large containing hundreds of pages, and difficult to handle because they were heavy, with poor bindings and very dusty. Once I secured access to the ‘right’ or appropriate files, I experienced another case of information overload. While I was reading the information from these selected files, almost all of it appeared as relevant, phenomenally interesting and theoretically important. As a result, I wanted to take comprehensive notes of all of it, because I was afraid that otherwise I would miss recording major scientific phenomenon and central structural aspects of the social setting. This made me have doubts about my observational and recording capabilities.

However, after careful consideration I realised that it would be impossible to capture everything from the social setting.

Ethical Considerations

One might perhaps argue that because archival research deals with the collection and analysis of written historical materials rather than involving human subjects in a study, the questions that I posed as problematic for in-depth interviewing have no applicability. Consequently, one might argue that the principles of ‘respect for person’ and ‘do not harm’ human participants were not relevant in the context of archival work. I would, however, like to re-emphasize the sensitive nature of the topics that I examined and the fact that some these key actors are still alive, thus rendering the protection of their identity a priority. The guarantee of anonymity via the assurance of confidentiality became even more important when I managed to obtain interviews with some of the key players emerging from the historical documents. The guarantee of anonymity via the assurance of confidentiality was also granted to the gatekeepers that helped me navigate the Archives. Furthermore, all data collected during archival research, in the form of hand-written notes, has been regarded as strictly confidential and has been held securely in a collection of notebooks that are stored in a locked cabinet within my university office.

3.3.3 Supplementary Data

According to Lofland et al. (2006), depending on the research question being posed, the character of the setting, the form of research, and so on, the researcher may amass data via other methods and from supplementary sources. I collected and reviewed a range of online newspaper articles and technical reports in relation to the social setting that had to do with my research questions and my topics of interest. These collected materials played the role of further expanding my understanding about the actors, the social setting and the internal dynamic permeating the setting, as well as triangulating the data in order to verify the authenticity of the information that was collected via other lines of sight (Denzin, 1978, 1989; Snow and Anderson, 1993) – in-depth interviewing and archival research. My search for newspaper articles and technical reports was carried out on Google via the use of mostly Romanian key words but also some English key words. When conducting my search for materials, I tended to utilise key search words

mostly in the Romanian language, primarily because after a few initial searches in both languages, I realised that the existing materials in English were relatively limited and tended to be written in a very summarised and general format, focusing on broad trends and not capturing any of the subtleties of the industry, company or event presented. Utilising similar key words, I also reviewed the archival directory containing past articles of several central Romanian e-newspapers specialised in economic and political affairs: Adevărul, Bursa, Business Review, Business Magazine, Capital, Cariere, Euracoal, Economica, Evenimentul Zilei, Gazeta de Sud, Historia, Mediafax, Profit, Wall Street Journal, Ziarul Financiar. Table 3.5 contains a range of examples of the key words that were utilised in my search for supplementary data. This list is by no means exhaustive, as some of these key words suffered slight modifications and/or the addition of other key words, in order to either extend or refine my search.

Table 3.5 Examples of Key Words Utilised in the Online Search for Supplementary Data

Coal Mining Sector	Car Manufacturing Sector	Business Services Sector
'Coal industry in Romania' 'Production of coal in Romania' 'Jiu Valley' 'Quality problems coal Romania' 'History of Coal Romania' 'Increase in coal production Romania' 'Coal production Socialist regime' 'Ceauşescu and the coal mining industry' 'Industrial development in Socialism focus on energy' 'Miners from Romania' 'Coal miners from Jiu Valley' 'Mineriadas' 'Iliescu and the Mineriadas' 'Petre Roman and the Mineriadas' 'Miners come to Bucharest' 'The first Mineriada' 'The second Mineriada' 'The third Mineriada' 'The fourth Mineriada' 'The fifth Mineriada' 'The sixth Mineriada' 'Restructuring coal mining' 'Closing the mines' 'EU and the closing of Romanian mines' 'World Bank and the restructuring of coal mines in Romania' 'Compensation packages given to miners' 'Closing mines in the Jiu Valley'	'Auto industry in Romania' 'Auto industry in Romania in Socialism' 'Increase in car production during Socialism' 'Creation of Dacia' 'Licensing contract Dacia and Renault' 'Quality problems at Dacia' 'Expansion of Dacia production' 'Conflict between Dacia and Renault' 'Inability to realise the Five Year Plan auto' 'Problems at Dacia during the 1990s' 'Privatisation of Dacia' 'Re-organisation of Dacia by Renault' 'Constantin Stroe and Dacia' 'The creation of Olcit' 'Union problems at Dacia' 'Strike at Dacia' 'Creation of Olcit' 'Licensing contract with Citroën' 'Problems at Olcit' 'Contract termination with Citroën, Citroën leaves' 'Nationalisation of Olcit' 'Acquisition of Oltena by Daewoo' 'Production of Daewoo in Romania' 'Problems at Daewoo Romania' 'Daewoo leaves Romania' 'Ford acquires SA Automobile Craiova' 'Ford in Romania' 'Problems at Ford Romania' 'Trade union at Ford Romania' 'Trade union conflict at Ford'	'Business services in Romania' 'ABSL' 'Main business services locations in Romania' 'Business services activities in Romania' 'Starting a business in Romania' 'Licenses and permits to start a business in Romania' 'State subsidies offered by state to business in Romania' 'Accessing cash incentives in Romania' 'Tax incentives given by the state in Romania' 'Tax exemption for IT in Romania' 'Collaboration between IT industry and universities' 'Partnerships between IT and educational system' 'Informal work in Romanian IT' 'Part-time work in Romanian IT' 'Temporary work in Romanian IT' 'Tele-work, working from home in Romanian IT' 'Changes to trade union law in Romanian' 'Modification made to the Romanian Labour Code' 'Emil Boc and changes made to the Labour Code' 'Modifications to collective bargaining in Romania' 'IT, business services sectors against trade unions' 'Employees' representatives in IT in Romania'

3.4 Focusing and Analysing Data

Once some data was gathered, in order to make sense of the things I was observing I started classifying them by categories of meaning that were pre-established during my review and operationalisation of the literature and existent theoretical frameworks. According to Lofland et al. (2006, 195), analysis constitutes “a transformative process through which raw data is turned into findings and results”. Referencing this process of transformation, Wolcott argues that “this transformation process involves at a rudimentary level sorting data bits into broad categories, or more abstractly, following systematic procedures in order to identify essential features and relationship consonant with the descriptive materials (1994, 23-24).

Type of Analysis

The results of my study arose through an analytical process that is oriented towards the inductive end of the spectrum rather than deduction (Ragin and Amoroso, 2011). With inductive analysis the analysis is driven by the data, whereas with deductive analysis the analytical process begins with theoretically-derived hypotheses and then proceeds to confirm or falsify them utilising data that was gathered according to the theoretical principles applied (Lofland et al., 2006; Berg, 2009). Hence, my theoretical observations have emerged inductively, or one can claim they are ‘grounded’, in the sense that they are emanating from the data that has been newly collected rather than being called forth by already existent theoretical frameworks. The findings of my qualitative fieldwork are not so much novel discoveries and theoretical breakthroughs; instead, they constitute ‘extensions’ and ‘refinings’ of previous work on CEE political economy studies (Burawoy et al., 1991; Hunt and Benford, 1994; Morrill, 1995; Burawoy, 1998; Snow et al., 2003). Furthermore, my findings seek to shed light on the structural particularities of the Romanian institutional configuration that shares a cluster of similarities with other former Socialist CEE national varieties, but at the same time presents unique institutional characteristics especially from the perspective of the industrial orders I examined.

The inductive nature of my qualitative analysis makes me, as the researcher, the central agent in the analysis process. The reason why I hold the primary analytical position is because I begin, drive, shape, and end the process of analysis, in comparison to deductive analysis that often can be farmed out to independent researchers and various software packages.

Another aspect that defines the analysis process of my research is its highly interactive nature. Just as gathering the data entailed immersion into the social setting, the process of analysis required my immersion into the data. There was a period of continuous, sustained and systematic episodes of data immersion, in which the data collected from my in-depth interviews and archival research underwent several stages of analysis, with each stage involving a more refined level of sorting and categorising.

Frequency and Timing of Analysis

According to Miles and Huberman, data analysis, which they define broadly to include data reduction, data display, and conclusion drawing and verification, “occurs continuously throughout the life of any qualitatively oriented project” (1994, 10). What this means is that analytical work is not something that you begin when you leave the field, but rather it should occur persistently, methodically and coterminously with your data collection process (Strauss and Corbin, 1990; Emerson, 2001). This is precisely how I designed the process of analysing my qualitative field data.

At the end of every day immersed in the field, during which data was collected either through in-depth interviewing or archival research or both, data analysis was carried out that involved different stages or layers of analytical thinking and sorting. Conducting data collection in parallel to data analysis enabled me to start the analysis early on rather than allow it to pile up – which would have rapidly amassed an overwhelming body of materials to comb through and analyse. Data analysis is already a daunting task, because the researcher has the responsibility of finding some scientific significance and/or order in the data he or she has collected. This in itself can cause feelings of anxiety, frustration, helplessness, inefficiency and even failure. Thus, starting data analysis late and furthermore, doing analytical work in a manner that is not systematic and frequent will generate even greater feelings of anxiety and can even result in the failure of a research project.

Analysis Strategies

In the course of analysis, different stages of analytical work were employed that ranged from initial to focused. The preliminary stages of analysis took place: 1) during the interview process itself, when while questioning my participants I took sparse notes about ideas regarding emerging themes and linkages to prior theory that were sparked by the things they said (Strauss and Corbin, 1990; Charmaz, 2001); and 2) while I was taking notes and transcribing from the historical files at the Archives. This initial sweep

of the material aided me to engage in an incipient form of categorising that is – defining what the data is about (Charmaz, 2001), relating the data to my ideas about it (Coffey and Atkinson, 1996), and determining how those ideas are refinements or extensions of already existing theoretical frameworks (LeCompte and Schensul, 1999; Lofland et al., 2006). In a way, this ‘early memoing’ was an intermediate step between data collection and the first stage of data analysis. During this stage, at the beginning of every interview and every visit to the Archives I also wrote my impressions. These were in a very summarised format and included information regarding the setting – the building, the reception, the waiting room, the office, the Study Room; comments about the person I interviewed or the custodian I spoke to; remarks about the quantity and quality of the material; and general comments about my feelings experienced during the ‘encounter’. Box 3.1 contains examples of impressions that I wrote while I was in the field before an ‘encounter’.

Box 3.1 Examples of Impressions Written in the Field before a Researcher Encounter

22.03.2017

Interview BS_1, Participant role: Director of EU Operations

Impressions:

- level A/class A office building located in centre of Bucharest (relatively);
- entrance via reception with an access card, all guests and visitors are pre-arranged and names are on visitor directory list;
- very young workforce: predominantly 20s-30s;
- open space office, only senior people have separated glass offices;
- interviewee was very friendly, offered to put me in touch with other contacts from within the firm, who will get me people from other firms;
- interviewee has been in the industry from its inception in Romania, seems to be very knowledgeable about all parts of supply chain and business services clusters in Romania;

23.03.2017

Visit to National Romanian Archives

Impressions:

- building located in central Bucharest, very old architecture, building is cold and humid, smells of dust;
- custodians were very helpful, indicated which file catalogues I should review;
- custodian directed me to Study Room which was large, there were tables/desks all around the room except for the walls that had tall glass cabinets that contained old files, books and catalogues;
- Study Room was crowded, there were multiple researchers (?), journalists (?), some university undergraduates (?);
- I sat at one of the desks by the window;
- the catalogues are very heavy and dusty, finding the ‘right’ files is very time consuming and draining;
- not sure if the files that I made a note of are of any use, the filing system is inefficient;

Concerning the process of interviewing, all interviews were transcribed by myself verbatim – the convention behind this is to transcribe every word, exclamation or pause made by the interviewee (Lofland et al., 2006) – on the same day the interview was conducted or on the following day, in case I had multiple interviews scheduled that day. On average, each interview took between six to eight hours to transcribe depending on length and the average speaking rate of interviewees. In the process of writing up the interview, questions, ideas and themes emerged – I recorded these in the form of ‘jotted notes’ which were later incorporated in the more systematic process of coding.

The next stage of the data analysis occurred during the reading of the collected data. Before commencing the process of coding, I closely and fully read the interview transcription or the hand-written notes of the archival file. During this stage, more ideas and connections to the existing body of literature were provoked by what was being said (Glaser, 1978; Miles and Huberman, 1994). I usually wrote these ideas and connections down on the side of the page or notebook in a very schematic format.

Before commencing the actual coding, I constructed a series of codes that emerged inductively from the theory and historical materials that I had studied. Hence, similar to my theoretical observations, one can argue that these initial codes were ‘grounded’, in the sense that they were emanating from the synthesis of the literature (Lofland et al., 2006; Berg, 2009). The creation of these preliminary codes helped me understand what to expect and what to look for within the data emerging from the in-depth interviews and the archival field notes. According to Ragin and Amoroso (2011), the researcher needs to consider the possibility that the findings emerging from the collected data might disprove his initial ideas about the data. If that happens then the researcher must change, refine and extend his ideas about the data, in order for his ideas to reflect the data.

In the following stage of analysis, I began my initial coding (Strauss and Corbin, 1990; Charmaz, 2001). I coded my material from both interviews and archival notes line-by-line. This initial coding process resulted in a highly numerous and varied collection of codes. An example of initial coding is provided in Box 3.2. These initial codes closely reflected the preliminary codes that I had constructed during my analysis of the theory and historical materials; however, some of the findings and emerging themes provided further clarifications and extended my initial ideas. For example, according to the candidate I spoke to in interview BS_8, the Multimedia Site Manager of a business

services MNC in Timișoara, there is still a high degree of labour protection in Romania. The interviewee highlighted the fact that there has been some deregulation, which has facilitated the better functioning of the business services environment – however, the extent and degree of this process has not been sufficient. The interviewee further emphasized that the institutional configuration of Romanian labour has not converged to a ‘hire and fire’ model, primarily because the current labour legislative framework safeguards against redundancy without (very) significant cause. Furthermore, the interviewee pointed out that in order for the business services industry to operate more efficiently the changes in labour legislation – deregulation – need to continue.

Box 3.2 Example of Interview Transcript Initial Coding, Interview BS_8

Initial Coding/Line-by-line Coding	Interview Transcript
RQ: How do you see labour force legislation in Romania?	
Labour law modifications	Still needs improvement. Still. There is a lot of work to be done there. A looot of work. I still think it's protectionist, it's not business-friendly. Things have improved – some legislative changes some years back, one or two years back, I don't remember exactly when, but there is potential for a lot more. The rules need to be relaxed a little bit to enable business to operate better in today's environment and industry. So I'll give you an example. It's almost impossible to fire people.
Labour protection/ protectionist labour model	
Not a business-friendly context	
Legislative changes	
More changes required	
Deregulation	
Creation of business-friendly context	
Labour protection/ not a ‘hire and fire’ culture	

After the phase of initial coding, I engaged in a form of focused coding which as a practice is much more selective and more conceptual than line-by-line coding that is highly open-ended and entails coding everything (Charmaz, 2001). Focused coding built on my initial codes and my ‘grounded’ codes emerging from the synthesis of the theory and history. In some instances these focused codes reinforced my initial ideas about the data, in other instances they provided further clarification and refinement of my initial ideas, while in the remaining cases my focused codes resulted in the extension or even the complete reconfiguration of the idea. Box 3.3 provides an illustration of such selected and focused codes for the same slice of the interview transcript I utilised in the example given above. In this case, the focused codes reinforced my initial ideas about the data; however, the evidence emerging from the interview – the interviewee’s conceptualisation of the institutional configuration of the Romanian labour model in business services – allowed me to refine my initial ideas.

Box 3.3 Example of Interview Transcript Focused Coding, Interview BS_8

Initial Coding/Line-by-line Coding	Interview Transcript
RQ: How do you see labour force legislation in Romania?	
[Business representatives] pushing for labour deregulation	Still needs improvement. Still. There is a lot of work to be done there. A looot of work. I still think it's protectionist, it's not business-friendly. Things have improved – some legislative changes some years back, one or two years back, I don't remember exactly when, but there is potential for a lot more. The rules need to be relaxed a little bit to enable business to operate better in today's environment and industry. So, I'll give you an example. It is almost impossible to fire people.
Some labour protection still in place	

My analytical ideas and propositions were initially developed through an iterative process of studying the theory and historical materials. Once focused coding was completed, I started to gather my codes for each research question or across a certain topic in order to compare, contrast, count, and further refine and expand my analytical ideas and propositions. The categorisation of my focused codes enhanced the analytical ideas and propositions I had initially constructed, resulting in the formation of enhanced analytical frames. These enhanced analytical frames constituted the building blocks of the institutional interactions that I captured for each individual sector incorporated in my study. However, it took several iterations of synthesising the theory, the historical materials and the data emerging from the fieldwork to fully form each sector's overarching topics, including the propositions and ideas subordinated to them. An example of ideas and propositions gathered across a certain overarching topic, which occupied a prominent position within my analysis, is presented in Box 3.4.

Box 3.4 Example of Ideas and Propositions Forming Larger Units of Analysis

Overarching Topic: Interaction between MNCs and Domestic Elites/Interaction between MNCs and State	
<i>Proposition 1: Strong state implication</i>	<i>Proposition 2: Weak state implication</i>
<i>Main ideas subordinated to proposition:</i> Land access Cash incentives Tax incentives	<i>Main ideas subordinated to proposition:</i> Cumbersome bureaucratic procedures Licenses and permits Ease of doing business

3.5 Research Design

3.5.1 A Theory of Methods

Based on Kathleen M. Eisenhardt's paper *Building Theories from Case Study Research*, I decided to utilise a case study in order to construct the theory emerging from the institutional context of the Romanian political economy and the three sectoral economies during the timeframe of investigation. Eisenhardt's study aims to build a road map for constructing theories from case study research by synthesising: 1) the work of Glaser and Strauss on grounded theory building (1967), 2) the work of Miles and Huberman on qualitative methods (1984), and 3) the work of Yin on design of case study research (1981, 1984); and extends their work in areas such as a priori specification of constructs, triangulation of multiple investigators, within case and cross-case analyses, and the role of existing literature.

According to Eisenhardt (1989), the selection of cases is a crucial aspect of building theory from case studies. More specifically, the selection of appropriate cases controls for extraneous variation and helps to define the limits for generalising the findings. Cases are chosen for theoretical rather than statistical reasons. Furthermore, Eisenhardt argues that the cases may be chosen to replicate previous cases or extend emergent theory, or they may be chosen to fill theoretical categories and provide examples of polar types. The utilisation of the Romanian case study allowed me to extend emergent theory on the CEE region, refine and add on to an existing theoretical case (since the Romanian institutional framework is distinct and does not fully replicate the institutional configuration of the other CEE political economies), and also identify a set of structural particularities (institutional similarities) that are prevalent across the entire CEE region.

In terms of crafting instruments and protocols, Eisenhardt claims that theory building researchers typically utilise multiple data collection methods. As I have emphasized previously, my study involved the collection of data via three methods: in-depth interviewing, archival research and the collection of supplementary data from online newspaper articles and technical reports.

The rationale behind using Eisenhardt's cross-case searching tactics is the fact that this analytical procedure influences the investigator to go beyond initial and thinly contoured impressions and images, and forces him (her) to use diverse, structured and

focused lenses on the data. The implementation of these tactics enhances the likelihood of building accurate and reliable theory – more specifically, theory with a close fit with the data. Furthermore, the utilisation of cross-case searching tactics raises the probability that the researcher will capture interesting and/or unique scientific phenomena, which may exist in the data. Based on Eisenhardt, the tactic that I implemented consists of selecting different cases and then constructing a list with the similarities and differences between the cases. The reason behind the adoption of this tactic is that it enables the researcher to look for the fundamental characteristics of each individual case and to identify the subtle similarities and differences between cases.

3.5.2 Case Study Design

The utilisation of a case study provides me with extremely rich, detailed and in-depth information about the country-specific drivers that have driven institutional change within the Romanian context. The motivation behind implementing a case study is to generate an in-depth and extensive understanding regarding the processes of institutional formation and institutional change in the context of CEE, but I am doing so through the utilisation of the Romanian case, which although shares a range of institutional commonalities with the other CEE varieties, in fact has a theoretically different institutional configuration.

In relation to my research questions, the implementation of a case study design will enable me to visualise the evolution of elite relations over time – whether intra-network relations have become tighter or looser; the size of the dominant coalition – whether as a grouping it has become more inclusive or exclusive and how membership has shifted over time; the nature and distribution of elite networks – how they permeate Romanian society and how they influence the institutional structure; the transparency of elite actions – whether the actions of elites reflect a more front stage or back stage approach; the nature and evolution of the domestic-foreign elite collaboration; and the changing dynamics between elites and labour, and more specifically, how one has influenced the position of the other.

Furthermore, I will capture ‘thick descriptions’ on how Romania shifted from a Socialist regime that completely rejected the idea of foreign ownership, to a failed post-Socialist ‘inward-oriented’ capitalist model focused primarily on domestic finance and investment, to finally an outward-oriented ‘FDI dependent’ capitalist structure. My case study design embeds the examination of three subunits or meso case studies that will

explore three different sectors specific to the Romanian national variety. The three meso case studies are: 1) coal mining industry, 2) auto industry, and 3) business services industry.

The spatial and temporal configuration of each industry is differentiated vis-à-vis the other; however, what is really striking is actually the timeframe within which each industry is active. A sample of firms and institutions from each industry were selected and analysed. Hence, I operationalise the research by moving along three levels of analysis – from the national to the sectoral to the firm level. This allows me to capture a more holistic description and more varied nuances of institutional change, and to examine how the hypothesised elements of change – elites, international forces and labour – have driven institutional transformation across the various levels – the macro, the meso and the micro.

By concentrating on three distinct industries, I am able to demonstrate that the establishing of an external order is not distributed in the same way and to the same extent across sectors. Furthermore, I also show that the sectors display differentiated timeframes of interaction with FDI – more precisely, during the Socialist era coal mining was completely isolated from the FDI-driven institutional framework, contrastingly business services emerged in the post-Socialist context due to foreign capital and MNCs, whereas the auto sector straddles the two timeframes, operating in complete isolation from FDI in the first three decades of existence (mid-1960s to mid-1990s) after which it was displaced by foreign capital. Various research narratives assert that the establishing of this external order was done via coercive mechanisms implemented by MNCs; however, via the detailed examination of the setting, I demonstrate that the scenario was not one based on coercion, but instead on the existence of collaborative arrangements between different levels of elite institutional players in power.

In relation to my research questions regarding labour, the implementation of a case study design allows me to distinguish between the different categories of labour. At no point in my analysis is labour a homogenous actor across sectors. The bargaining power of labour as a social agent is institutionally divergent, with labour having considerably more power in the heavy industrial sectors vis-à-vis the tertiary sectors (coal mining and auto versus business services). Furthermore, I demonstrate that while labour in heavier industrial sectors, such as auto, retains some capacity to organise and challenge

opposing actors such as management, labour in light industries, such as business services, has from the beginning been characterised by a weakly organised and fragmented model skewed towards the neoliberal spectrum. By adopting a case study, I am able to grasp the distinct effects that 1) the insertion of FDI (foreign-led varieties of restructuring), and 2) the alliance between domestic and foreign elites, have on the institutional configuration of labour across the three industries.

In my opinion, the utilisation of this ‘nested’ case study design will generate valuable theoretical material that can be valid for other CEE states and their localised sectoral economies. Elites permeate all CEE societies – however, in different forms and to a different extent – but in all cases the dominant coalition has had a powerful ability to influence the institutional transformation of the state and drive the structure and configuration of the economic order. Moreover, all CEE countries have experienced changes within their dominant coalition, the rise of international forces and more or less the exclusion of labour as a leading subcoalition or power player.¹⁴

I would like to address the issue of research design asymmetry and emphasize the fact that my historical analysis of the three sectoral economies and their institutional configuration stresses the existence of institutional asymmetry across the meso-level case studies. The fact that these sectors are differentiated in terms of historical legacies, ownership structure, spatial and temporal configuration, and drivers of institutional change required the creation of an asymmetrical research design. In fact, the implementation of systematic asymmetry was intentional, in order to accurately capture the variegated historical paths and institutional frameworks across the sectors. The fact that the three sectors are so diverse has meant that I had to use distinct research methods in order to study them.

3.5.3 Case Study Selection

Romania is analytically interesting because throughout the first decade post-Socialism it was the CEE political economy with the most extreme form of institutional incoherence. Rather than selecting an already existent blueprint, elites pursued a form of ‘institutional bricolage’ that consisted of the combination of different continental, developmental and Anglo-Saxon elements of capitalism (Cernat, 2006). The result was the emergence of a perverted ‘cocktail capitalism’, which featured a skeletal system with incomplete and

¹⁴ Except maybe Poland, where labour retains relatively high bargaining power but only in the heavy industries (Martin, 2013).

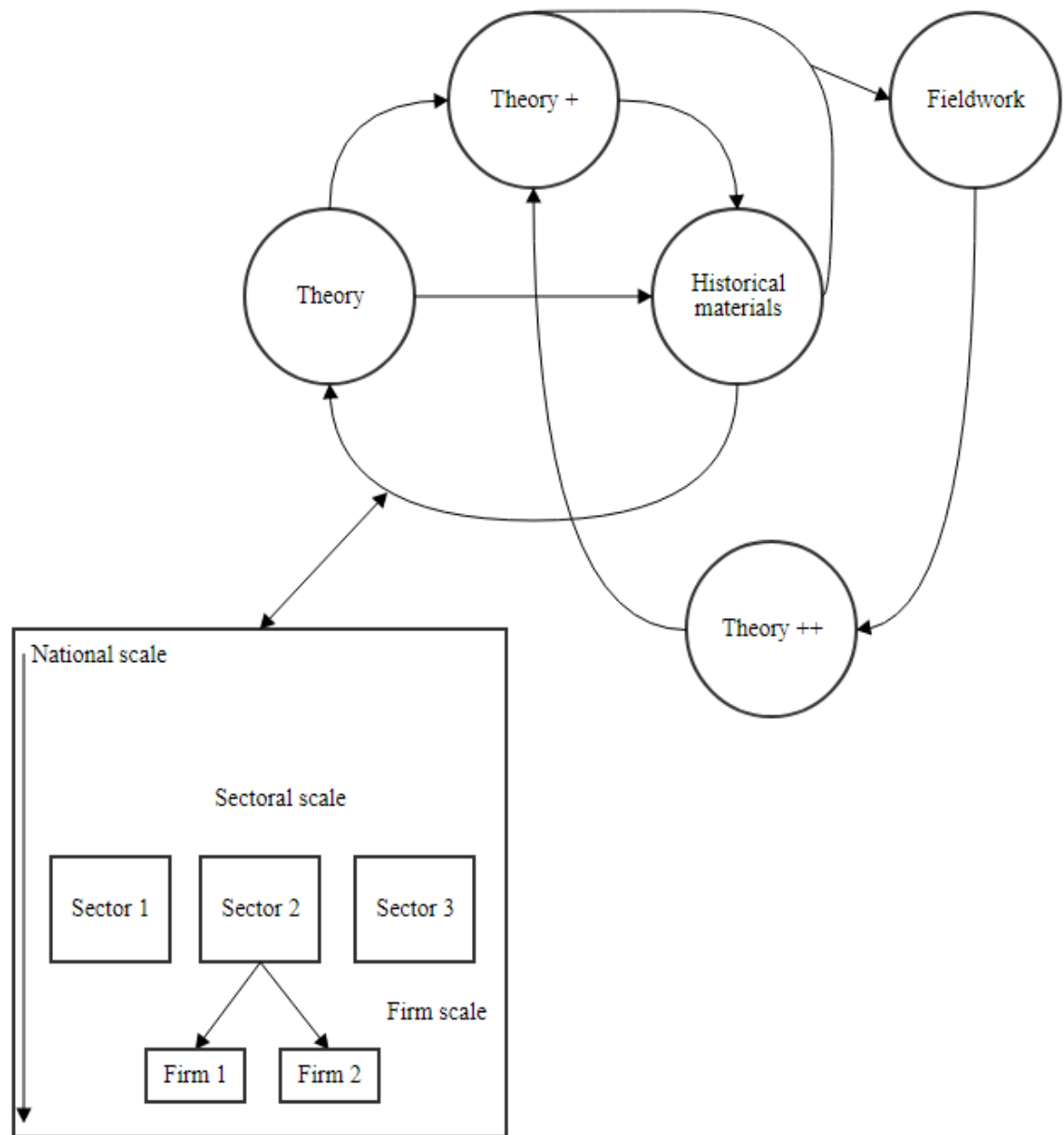
inefficiently functioning institutions (Cernat, 2006; Ban, 2013). A high degree of institutional incoherence also emerged due to the initial conflictual relations between domestic interest groups and IFIs.

As I have emphasized previously, the case of Romania distinguishes itself from other pre-established CEE country groupings, such as the Visegráds, the Baltics, the former Yugoslav states or more authoritarian regimes located further east. The historical evolution of the Romanian national variety is very different vis-à-vis the other CEE models. Having a much higher degree of centralisation and authoritarianism, the severity of the Communist regime in Romania was much higher (Myant and Drahokoupil, 2011). Martin (2013) states that Romania's regime ideology was extremely hostile to private ownership, in comparison to the 'softer' ideology pursued in countries such as Hungary and Poland, where the Central Committee gradually expanded private property ownership and the scope for economic activity. In contrast to the Polish and Hungarian models, Romania did not experience the same relaxation of rules to private enterprise from the mid-1970s onwards, with regards to cooperatives in sectors such as construction, retailing, agriculture and manufacturing (Berend, 1996).

My study analyses three industries with three very diversified 'active timeframes': 1) an old industry emblematic of the Socialist era, 2) a continuous industry with a pre-capitalist setup and a FDI-based facelift, and 3) a 'de novo' industry created as a result of the processes of de-industrialisation and tertiarisation brought on by neoliberalism. I want to highlight the fact that I came to these industries or categories through an iterative process of studying the history, the theory and my fieldwork. I began this process with an initial reading of the theory – according to Ragin and Amoroso (2011, 118), "It is impossible to initiate a qualitative study without some understanding of what concepts might be used to guide the investigation". The concepts I initially extracted were half-formed, tentative analytic frames, with a fluid composition – meaning that they would constantly get refined and elaborated within the course of the research process. I then looked at the evidence or data – more specifically, the historical materials on Romania – in order to see whether the emerging historical data challenged or confirmed the initial analytical frames and concepts I had developed. The accumulation of historical materials allowed me to go back to my theory to clarify and elaborate my analytic frames and concepts. Furthermore, the better understanding of the Romanian historical context and the elaboration and focusing of my analytic frames (theory) enabled me to develop a deeper understanding of my categories. I went through

several iterations of this process – gathering and analysing historical materials (historical studies, technical reports, newspaper articles, historical documentaries) and then going back to the theory and my analytic frames for refinement, sharpening, extension and elaboration. The initial ‘images’ emerging from the iterative process of synthesising the theory and historical materials spurred my fieldwork. In turn, the fieldwork gathered more evidence that fed back into my analytic frames and the elaboration and refining of my categories. This process of analytic induction – the synthesis of theory, history and fieldwork – facilitated the construction and clarification of my categories (Becker, 1953; Turner, 1953). Hence, one can claim that my categories are ‘grounded’, in the sense that they are emanating from this synthesis.

Figure 3.1 Illustrating the Iterative Development Process of Constructing Categories



The spatial vectors of these three industries are also highly diversified. The principal location of the coal mining industry is located in the Jiu Valley – a poorly developed mono-industrial zone situated in the south-western region of Romania, with proximity to only small- and medium-sized towns and relatively distant from the major urban clusters, where the majority of inhabitants were dependent on this specific economic activity. The geographical space of the auto industry can be mapped around two significant urban areas, at the periphery of Pitești and Craiova. The location of the two car manufacturers is highly influenced by the existence and easy access to a large pool of labour specialised in engineering and machinery construction skills, proximity to

supporting industries and the presence of a strong infrastructure network. Contrastingly, the spatial setup of the business services industry is the most urbanised, with the majority of such firms located in the heart of the major cities – Bucharest, Cluj-Napoca, Timișoara, Iași and Brașov. The spatial distribution of business services FDI reinforces a scenario characterised by the heavy concentration of foreign investment in the capital and several other key urban areas: West (Timișoara, Arad), Centre (Cluj Napoca, Brașov, Sibiu, Pitești), North-East (Iași, Piatra Neamț). Table 3.6 illustrates the distribution of FDI stock by economic region.

Table 3.6 FDI Stock by Development Region (as a Percentage of Total)

	2012
Bucharest	60.6
Centre	7.8
West	7.6
South (Region of Muntenia)	7.2
South-east	5.5
North-West	4.8
South-west	3.5
North-east	3.0

Source: based on a paper prepared by the National Bank of Romania the National Institute of Statistics (2012).

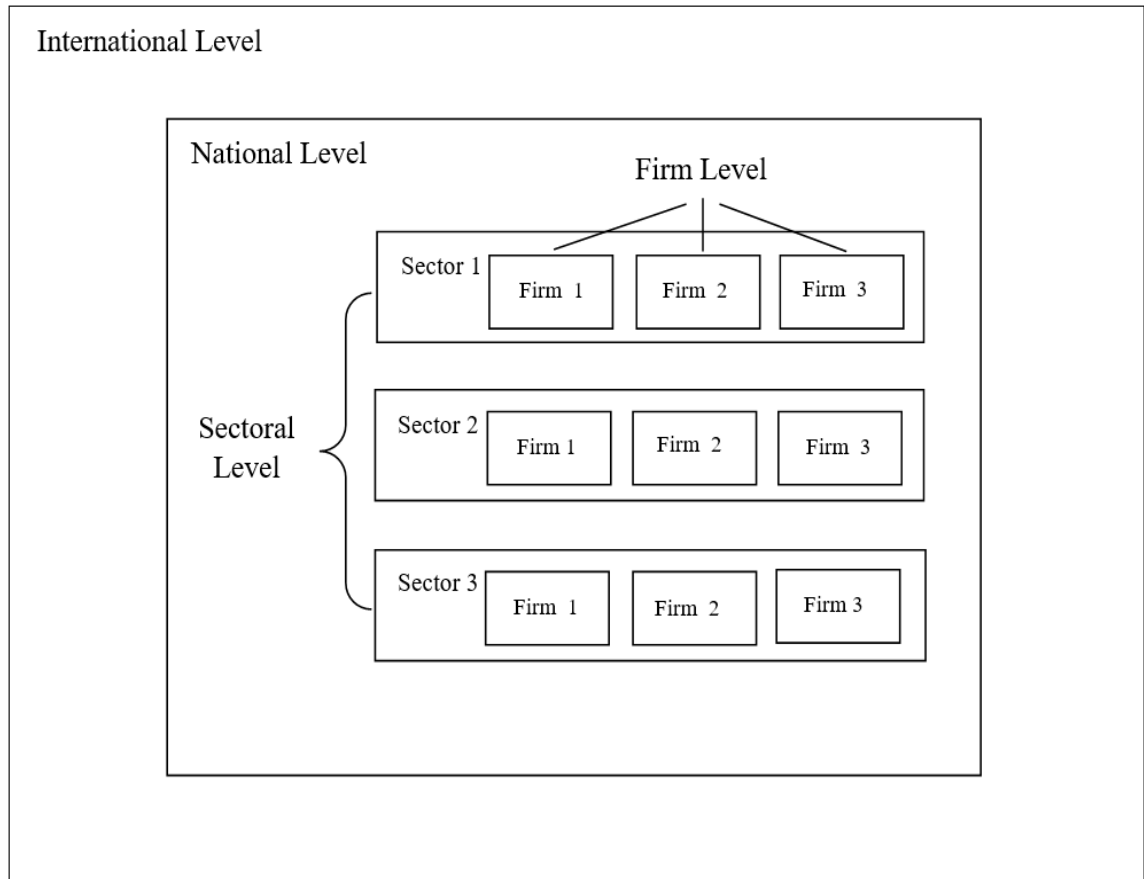
3.5.4 Discussing the Issue of Scale

As part of discussion about my research design, I need to spend some time explaining the concept of ‘nested’ spatial scales or ‘nested’ geographical scales that I have borrowed and adapted from the fields of geography and ecology (Swyngedouw, 1997a, 1997b; Inouye, 1999; Lyle, 2015). When utilising the term ‘scale’, I implicitly refer to the territories associated with different levels of the state (or national political economy), within and outside the state, and ranked according to their areal sizes, which have varying degrees of influence on each other. In order to capture a comprehensive story of institutional formation and institutional change, one needs to account for more than just the institutional effects of spatial scales or geographies within the national political economy or the state. The geographical or spatial configuration of the national political economy is situated within an international order fraught by supranational institutions and transnational agents; hence, it is essential to recognise the effect of the international scale and its underlying institutional agents when analysing the different geographical scales that affect a national variety such as Romania.

Furthermore, incorporating the concept of scale was highly useful, as it allows me to monitor and assess the different types of exchanges and communication between the different existing scales. According to Collinge (2005, 189), “Scale discourse is powerful because it holds out a totalising perspective, seeking to integrate different levels of geographical inquiry”. Thus, when conceptualising my research design, I was interested in capturing the relations between the different scales and “the pattern of institutional integration” (Jessop, 1994, 14). As I have highlighted previously, the conceptualisation of this relational, multiscale approach was drawn from the economic geography literature, which envisages a relational setting characterised by a multitude of interacting actors, institutions and forces that operate at diverging levels – firm- (micro), sectoral- (meso), national- (macro) and international-level (Lane and Wood, 2009). The international level influences the national political economy, along with the different localised sectoral economies within the state, down to all the firms within one sector of activity. However, this top-down mode of influence and institutional transformation is not exclusive; instead, small scales such as the firm- or the sectoral-level can influence the macro-level and even the international-level, if the firm or sector is powerful enough or has sufficient legitimacy.

The conceptualisation of nested spatial scales introduced an ease to understanding the institutional formation and institutional change within the different levels of the state or the different spatial scales within and outside the national political economy. More specifically, by breaking the institutional structure into different scales, this allows me to zoom in on the different spatial configurations – the micro, meso, macro and international – at certain moments throughout my timeframe of investigation (mid-1960s to 2010s). Moreover, this ability to zoom in on the different spatial scales or geographies of the state has enabled me to construct a balanced and holistic analysis of institutional change – by allowing me to incorporate the effects and actions of the entire range of actors, forces and institutions permeating the institutional configuration.

Figure 3.2 Illustration of the ‘Nested’ Spatial Scales of the National Political Economy



The study of institutional change within the Romanian national variety will enable me to map out its path of transformation and institutional configuration vis-à-vis the other CEE national varieties of capitalism that comparative political economy has analysed. Furthermore, the CEE national political economy is situated within international order that has driven institutional formation and the construction of a post-Socialist form of capitalism, as is the case with the other CEE countries in the region – as Myant highlighted, institutional creation has been driven from without by foreign capital and capitalists (2007).

The purpose of selecting three industry case studies as subunits of analysis is to be able to compare and contrast how the elements of change – that is the existence of elites, the influence of international forces on the institutional order and the changing role of labour – influence the structure of my selected industries and subsequently, at a micro level how firms within each sector are affected. The purpose is to comprehend the issue of institutional change within ‘a big picture context’, while constantly keeping in mind that institutional heterogeneity can be present within each spatial scale. This means that

the effect of elites, international forces and labour may vary across the different macro, meso and micro level of each sector.

Elites as an element of change has applicability across all three industries; however, its effect as an agent of transformation is institutionally diversified. I discuss the continuous dominant effect of domestic elites in the traditional sector of coal mining; in the auto industry, domestic elites control the industrial order pre-displacement by foreign capital, whereas post-displacement influence is primarily exerted by foreign elites, with domestic elites taking a more backseat position in the power structure; and finally, the business services sector has emerged and developed because of the alliance between domestic and foreign elites, with domestic elites acting as facilitators and foreign elites playing the role of institutional drivers.

In terms of international forces, the coal mining sector was influenced during the Socialist regime by the imposition of an import-oriented institutional framework based on foreign technological resources, whereas in the post-Socialist era international forces manifested in the form of IFI-driven restructuring programmes. The auto sector experienced a similar import-substitution model during Socialism having some foreign-oriented collaboration in the form of licensing, while in the capitalist era the institutional configuration became characterised by FDI displacement and the implementation of an industrial development programme triggered by MNCs. Lastly, the business services sector constitutes an archetype of the foreign dependency paradigm, being highly influenced from its institutional inception by international forces.

The picture of labour is also institutionally variegated across the three industries. Coal mining exhibits the strongest and most organised model of labour. Situated at the opposite end of the spectrum, business services is characterised by the highest level of fragmentation, reduced legitimacy, skeletal policies of labour protection and a low capacity to organise. This places labour in the auto industrial order somewhere in between the coal mining and business services sectors. More specifically, the power and position of labour is greater than that of business services, with labour in auto challenging and opposing other competing groups, but weaker than the coal mining labour model which saw some influence over the political structure of the state during the 1990s.

3.5.5 The Implementation of Longitudinal Methods

The reason why I have chosen to use longitudinal research is that it allows me to observe the same social actors, settings and phenomena over an extended period. The fundamental benefit of this type of extended observational research is that it allows the researcher to analyse what changes these social actors, settings and phenomena undergo over time. More precisely, in my case the utilisation of longitudinal methods allowed me to comprehend the way in which institutional formation and institutional change have occurred throughout the Romanian national variety and the three sectors I examine during my timeframe of investigation (mid-1960s to mid-2010s).

The fact that longitudinal methods facilitate this form of observation over time enabled me to capture the changing dynamic between the different categories of social actors permeating the institutional configuration. As I have emphasized previously, I am implementing a relational approach when conceptualising the institutional context and the different types of institutions and actors activating in that context. Thus, without engaging in extended observational research I would have not been able to capture the comprehensive variety of exchanges, alliances and conflicts between elite and non-elite players.

Since longitudinal methods result in prolonged engagement with the social setting and extensive data immersion, this type of research help the researcher “construct rich, powerful and instructive representations of social life that contribute to the extension and refining of social theory” (Ragin and Amoroso, 2011, 78). Moreover, the utilisation of longitudinal methods allow the researcher to capture and analyse a breadth and depth of evidence about social life in a systematic way.

Furthermore, the fact that my study is retroactive, meaning that it takes advantage of historical data, makes it ideal for capturing the importance of historical legacies in institutional formation, especially in the context of national varieties such as those of CEE where the institutional effect of historical traces is fundamental. Additionally, the fact that longitudinal methods are sensitised to capturing (institutional) changes over time, makes them suitable to map out the key moments of historical change within the Romanian institutional configuration and capture how institutional transformation has taken place at the different spatial scales – micro, meso, macro and international – during these key historical turning points.

Chapter 4

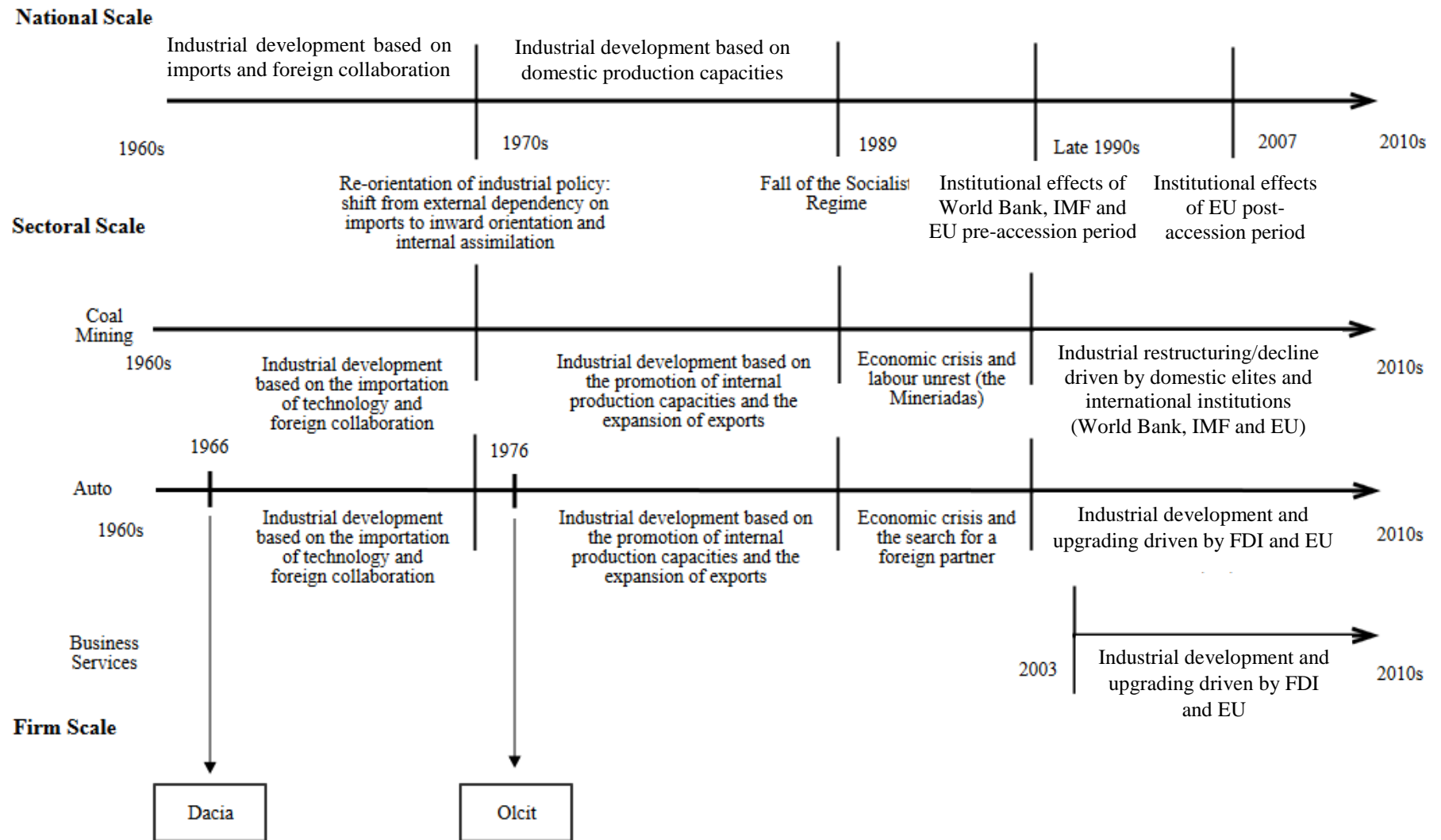
The Historical Legacies and Key Moments of Institutional Change of the Romanian National Political Economy (1960s-2010s)

4.1 Introduction

Chapter 4 identifies the key moments of institutional change and their drivers across the Romanian national political economy. Understanding the institutional changes that occurred at the national scale allows me to analyse how institutional transformation ensued at the sectoral scale. Hence, Chapter 4 develops a periodisation for my empirical chapters (Chapters 5, 6 and 7). Furthermore, the analysis of institutional change at the national-level enables me to measure how the different sectoral economies have the capacity to influence institutional transformation across the wider national system.

I begin this chapter by analysing the implementation of the National Industrialisation Programme during the early 1960s – a long-term development project that set the industrial targets for individual industrial branches over a period of 20 years. After that, I present the structural problems characterising the Romanian industry throughout the Socialist regime. Next, I analyse the way in which industrial development was pursued between 1965 and 1989 in Socialist Romania. In the next section, I talk about the fall of the Socialist regime, the factors that led to the Romanian Revolution in December 1989 and the execution of the long-time Communist Party leader Nicolae Ceaușescu and his wife Elena Ceaușescu. Furthermore, I analyse the period of economic crisis and industrial decline that characterised the first decade post-Socialism in Romania. Within this section, I also examine the various instances of labour unrest that plagued the 1990s, which emerged as a reaction to the various institutional measures imposed by the dominant elites from the political sphere to restructure and/or terminate different sectoral economies of the national political economy. By the late 1990s, the inward-oriented industrial policies and internally-based development schemes were replaced with externally-oriented strategies emphasizing the promotion of competitiveness by attracting foreign investors and liberal market types of collaboration with a variety of international players. Hence, I analyse how international forces have shaped and transformed the institutional configuration of the Romanian political economy in the post-Socialist era (mid-1990s-2010s). In the last section of this chapter, I look at how the Romanian industrial relations system has changed during the post-Socialist era and analyse the most extensive deregulation of the Romanian Labour Code.

Figure 4.1 Identifying the Key Moments of Institutional Change across the Different Scales of the Romanian National Political Economy (1960s-2010s)



4.2 The Implementation of a National Industrialisation Programme (1960s-1980s)

During the early 1960s, Romania embarked on an institutional programme whose objective was the implementation of internal development schemes for individual industrial branches. The programme was a long-term development project that set the industrial targets for a period of 20 years. Aside from the objective of industrialisation, the programme sought to meet the demands and necessities of the internal Romanian market. Based on my examination of historical materials (National Romanian Archives Files 3064/22/1972; 3064/40/1972), in 1960 Romania prioritised: 1) creating an energy-based economy and capitalising on the internal reserves of raw materials that contained coal, oil, natural gas, and ferrous and non-ferrous metals; and 2) the re-development of a severely lagging machinery construction industry (which included auto) which in 1960 covered approximately only 15-20 per cent of internal market necessities, with the aim to satisfy 70-75 per cent of internal market necessities by 1985. These development propositions were well highlighted during one of my interviews with a senior member of the CC of the Romanian Communist Party. According to the former Minister of Machinery Construction (1969-1989) and Vice President of Government (1987-1989) (interview code A_10):

“I told you, there were two central ideas or objectives – industrialisation and meeting the market necessities. The first central idea was the industrialisation programme of Romania. The second central idea was the meeting the needs of the internal market, because Romania had set itself a very ambitious program of industrial development starting from the internal market needs. The market started with some internal industrialisation programmes based on individual industries... industrial branches. First of all, the first central idea was harnessing Romania’s raw materials. Romania held reserves of oil, gas, coal, copper, zinc and so on. Apart from raw materials, we had to create a massive programme of industrialisation for machinery construction. Romania until 1962 had an underdeveloped machinery construction industry, the only exceptions constituted: petroleum equipment and agricultural machinery. The industrialisation programme was combined with the internal market necessities. Of course, the programme was all on paper, but ultimately the necessities within the internal market pushed us to create, to develop, to satisfy the country’s demand for machinery. The fact was that in 1960, 1962 we were satisfying around 15 to

20 per cent of the internal demand; however, by 1985 we were meeting up to 75 per cent of demand on all types of machinery.”

What the quotation highlights is the decision taken at the central level – the leadership of the Romanian Socialist Party – to pursue the implementation of a mass industrialisation programme in the institutional structure of the Romanian Socialist model. Furthermore, the interviewee clearly emphasizes the regime’s favouritism towards the expansion of extractive industries and machinery construction. The decision to trigger the process of industrialisation of the Romanian institutional configuration was taken by the central leadership (CC of the Romanian Socialist Party), in order to shift the economic orientation and industrial structure of the regime from a low-level industrialisation model to a high-level industrialisation model defined by more complex and diversified internal production capacities and technological resources.

4.3 The Structural Problems of Romanian Industry during the Socialist Regime

From the archival research that I have conducted and the analysis of interviews, it has emerged that the coal mining and auto industries were punctuated by a variety of problems during the Socialist regime. However, I would like to emphasize that these were not insular cases of deficiency; instead, this was an endemic phenomenon and key structural feature of the Romanian Socialist regime, with the majority of industrial branches within the national political economy presenting these symptoms.

One of the central problems highlighted in the archival materials was the inability of enterprises to meet the levels of planned output that were established by the State Planning Committee, due to the low-quality of manufactured products, outdated and/or insufficient machinery and tools, shortages and/or a lack of high-quality replacement parts, and an inadequate horizontal industry that could not ensure the timely and sufficient delivery of high-quality complementary goods (National Romanian Archives Files 3064/33/1973; 3294/163/1981; 3294/7/1982; 3294/234/1982).

Another negative aspect permeating the Romanian Socialist regime, which has consistently emanated from the archival materials, is that the cost of production often exceeded the sales price of goods. This economic deficiency was especially prevalent across the coal mining and auto sectors (National Romanian Archives Files 3064/52/1976; 3294/7/1982).

Another central issue emerging from the data is in relation to the inferior quality of manufactured products that the Socialist regime's industries produced (Coal Marketing International, 2019; interview code A_9; National Romanian Archives Files 3064/52/1976; 3294/7/1982; 3294/71/1987). This is again not an insular instance, but the endemic characteristic of all Romanian industrial branches during Socialism. In.

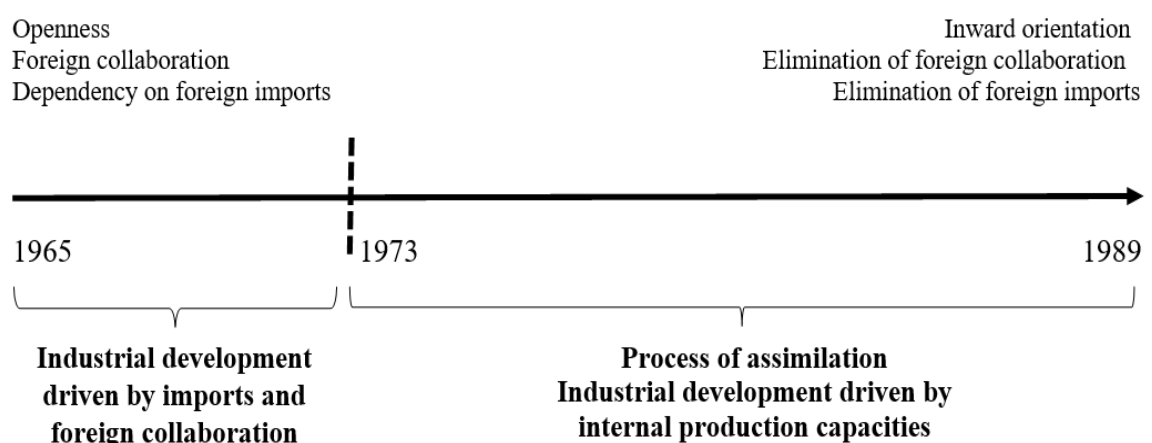
4.4 Industrial Development: The Expansion of Industrial Production Capacities during the Romanian Socialist Regime (1965-1989)

The Socialist period of my study, covering 1965 to 1989, is defined by an institutional structure designed for the expansion of industrial production capacities in all industrial branches deemed of national importance by the leadership of the Romanian Communist Party – the CC. The expansion of production capacities was especially pursued in the two industries with a 'stellar' Socialist status – coal mining and auto.

4.4.1 Industrial Policy in Romania during the Socialist Era

The historical timeframe of the expansion of production capacity (1965-1989) can be divided into two distinct periods, during which the Romanian Socialist political economy pursued highly differentiated industrial policies and programmes of industrial development.

Figure 4.2 Historical Timeline of Industrial Policies Implemented in Romania between 1965-1989



External Dependency on Technological Imports and Foreign Collaboration (1965-1973)

Based on my investigation of archival materials and the analysis of in-depth interviews, between 1965 and 1973 the industrial policy programme that was implemented in the Romanian Socialist regime promoted a high level of dependency on technological imports, licenses and foreign collaboration. The institutional configurations of all Romanian industrial branches had inadequate technological resources: outdated and insufficient machinery and tools, shortages and a lack of high-quality replacement parts, an underdeveloped pool of specialised labour, and inferior process upgrading and innovations.¹⁵ Consequently, industrial upgrading and the development of internal production capacities could not be carried out by relying solely on the utilisation internal resources.¹⁶ As a result, the realisation of the national production plan and the process of industrial upgrading were highly dependent on the perpetuation of this open, import-dependent economic paradigm that facilitated the creation of internal production capacities based on foreign technological resources and foreign collaboration.¹⁷ Furthermore, I argue that the national industrialisation programme and the expansion of industrial production capacities in all industrial branches deemed of national importance by the CC were driven and supported by the presence of technological imports, licenses and foreign collaboration within the institutional configuration of the national political economy. This topic will be analysed in much greater depth in Chapter 5 and Chapter 6.

Import Substitution Industrialisation and the Creation of an Autarchic System (1973-1989)

The expansion of production capacities continued to dominate as the regime's overarching institutional framework between the mid-1970s and 1989. However, what could be seen was a complete transformation of the methods through which the process of industrialisation was executed and the intensification of production was pursued. My archival research and in-depth interviews revealed that starting from 1973; the leadership of the Romanian Communist Party shifted the institutional configuration of all industrial branches by reducing foreign collaboration and minimising the

¹⁵ National Romanian Archives Files 3064/33/1973; 3064/52/1976; 3294/163/1981; 3294/7/1982; 3294/234/1982; 3294/280/1983; 3294/48/1986; 3294/177/1989; 3354/38/1980; 3354/46/1981; 3294/65/1982; 3354/3/1987; 3354/26/1988.

¹⁶ Interviews: A_1, A_3, A_4, A_5, A_6, A_8, A_9, A_10, S_4.

¹⁷ National Romanian Archives Files 3064/27/1971; 3064/112/1971; 3064/40/1972; 3064/67/1972; 3064/81/1972; 3064/108/1973; 3064/26/1975; 3064/74/1975; 3064/104/1976; 3294/163/1981; 3294/7/1982; 3294/198/1982; 3294/268/1982.

dependency on technological imports.¹⁸ Hence, the changes in industrial policy driven by the CC and implemented across all industries gradually transformed the orientation and positioning of the Romanian Socialist regime – shifting from a relatively high degree of openness and strong reliance on foreign collaboration to a model defined by inward orientation and the promotion of internal resources and production capacities.

There were two principal reasons behind the implementation of this inward-orientated institutional model, which emerged from my archival and interview analysis. The first reason behind the decision to cut foreign technological imports and to minimise the level of external dependency of the Romanian industry was driven by the desire to create a national industrialisation programme based on the development and promotion of internal production capacities.¹⁹ The new economic model envisaged the development of all industrial necessities internally and the elimination of any form of ‘import-related’ type of collaboration with agents from ‘the West’. The only accepted and sought out collaborative arrangements were export agreements. The second reason that emerged out of the collected data is that Nicolae Ceaușescu decided to liquidate Romania’s external debts (Romanian Academy, Archives of Oltenia no. 25, 2011). The system implemented was based on an institutional model of import reduction and export maximisation. This resulted in the creation of a huge strain on the country’s finances. Furthermore, the inefficient spending of the amounts obtained from taxes paid by the population accelerated the formation of a crisis within the financing system of the national political economy, and because of this, the CC had to gradually reduce the funds allotted to various local public works. To save even more, a programme of rationing the basic food consumption was put into practice. Unfortunately, the funds reduction did not succeed in taking the Socialist regime out of the financial crisis it was going through. The former Minister of Machinery Construction (who was also Vice President of Government) explained the implementation of the inward-oriented institutional model very clearly, highlighting the two principal reasons I mentioned above (interview code A_10):

“The reduction of imports was a problem! The reduction of imports meant that we had to make extraordinary efforts to assimilate internally. We did

¹⁸ National Romanian Archives Files 3064/99/1973; 3064/108/1973; 3064/19/1974; 3064/26/1975; 3064/74/1975; 3064/52/1976; 3064/104/1976; 3294/65/1982; 3294/280/1983; 3294/390/1984; 3294/4/1986; 3294/150/1986; 3294/238/1986; 3294/309/1986; 3294/53/1987; 3294/71/1987; 3294/177/1989; 3294/329/1989.

¹⁹ National Romanian Archives Files 3064/99/1973; 3064/108/1973; 3064/19/1974; 3064/26/1975; 3064/74/1975. Interviews: A_3, A_4, A_5, A_6, A_8, A_9, A_10, S_4.

not have the necessary money to do this, because all our money went to the re-payment of our external debt; whereas, we needed to buy technical documentation, we needed to buy equipment and components, we couldn't make it all ourselves!"

The process of reducing technological imports and foreign collaboration accelerated throughout the 1980s.²⁰ This further strained the regime's financing system to the point of economic collapse. According to the industry representatives, Romanian industrial branches were not self-sufficient; instead, their existence and growth depended on an array of imported 'items'. The liquidation of external debt in conjunction with the promotion of internal production capacities meant that industrial branches were allocated insufficient levels of investment funds, thus rendering the importation of necessary materials, components, equipment, technical documentation and specialised training impossible. Without these imported 'items', the institutional configuration of the majority of Romanian industrial branches was no longer sustainable.

4.4.2 Key Players Shaping the Institutional Configuration of the Industrial Order (1969-1989)

During the Socialist regime, control and decision-making powers over the Romanian industrial branches was held by the CC of the Romanian Communist Party – 'the CC' – who acted as the ruling political apparatus. Hence, the CC is the central influencer of the institutional configuration of the two industries that I analyse. The CC was divided into two bodies: the Permanent Bureau of the Executive Political Committee and the Secretariat of the Romanian Communist Party.²¹ The CC would communicate its decisions in relation to the structure and direction of the state to the State Planning Committee, which had the role to formulate the Five-Year Plan. The State Planning Committee would then engage in a process of collaboration with the appropriate ministries, in order to design the plan for each individual industry. In my case, the State Planning Committee closely interacted with the Ministry of Mining, Oil and Geology

²⁰ National Romanian Archives Files 3294/65/1982; 3294/280/1983; 3294/390/1984; 3294/4/1986; 3294/150/1986; 3294/238/1986; 3294/309/1986; 3294/53/1987; 3294/71/1987; 3294/177/1989; 3294/329/1989.

²¹ National Romanian Archives Files 3064/27/1971; 3064/112/1971; 3064/33/1973; 3064/99/1973; 3064/19/1974; 3064/52/1976; 3294/65/1982; 3294/122/1982; 3294/234/1982; 3294/71/1987; 3294/177/1989; 3294/329/1989; 3354/13/1985.

and the Ministry of Machinery Construction respectively, to determine the direction and structure of the two industrial sectors.²²

To ensure that the plan for a specific industry was met, the State Planning Committee and the ministry controlling the respective industrial branch would closely interact with the other supporting/collaborating industrial branches in order to secure materials, components, equipment, technical assistance, technical documentation, investment funds, skilled labour, infrastructure etc. The State Planning Committee utilised each individual ministry controlling an industrial branch as a transmission belt to communicate and implement the plan at the sectoral-level through the general directors of the Industrial Complex.

At the enterprise-level, the elites formulated strategies to meet the targets received from 'above' and were under the constant supervision of the Industrial Complex who monitored whether the plan was met.²³ The directors of enterprises were also elites forming their own elite sub-coalition that was distinct from the other sub-coalitions presented.

Together these three levels of elites – the national-, the regional- and the enterprise-level, captured the state and formed the 'control system' underpinning the institutional configuration of the Romanian industrial order. Decision-making regarding the direction of an industrial branch, whether it was regarding the opening of new operating sites, the maximisation of production at existing factories, technological upgrading, the supply of parts and materials, the provision of infrastructure, or the training of labour, the allocation of investment funds, took place at the highest national level (the CC). The macro-level operationalisation of the plan was then carried out by the State Planning Committee and appropriate ministries, and afterwards the institutional measures were conveyed down the 'control system' to the sectoral-level (Industrial Complex) and ultimately, the enterprise-level. What this entailed was an intricate web of collaborative arrangements and communication channels between the different levels of elites, in order to ensure that the 'control system' was implemented and functional at all times.

Tables 4.1 and 4.2 reveal that the CC had a considerably stable membership across both its constituting bodies – the Permanent Bureau of the Executive Political Committee

²² National Romanian Archives Files 3064/112/1971; 3064/67/1972; 3064/33/1973; 3064/99/1973; 3064/19/1974; 3064/52/1976; 3294/65/1982; 3294/177/1989; 3354/38/1980; 3354/26/1988.

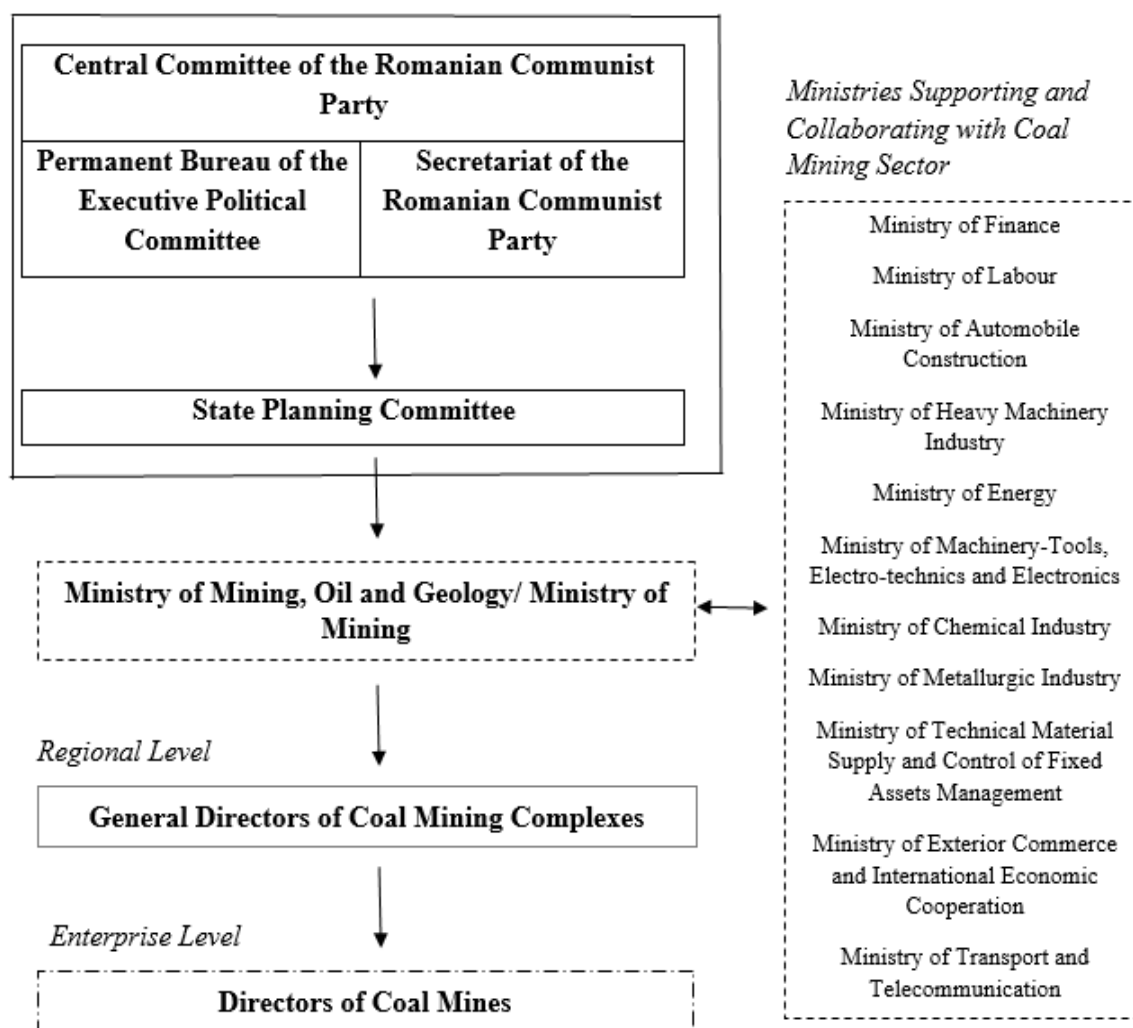
²³ National Romanian Archives Files 3064/27/1971; 3064/112/1971; 3064/67/1972; 3064/33/1973; 3064/99/1973; 3064/19/1974; 3064/52/1976.

and the Secretariat of the Romanian Communist Party – throughout the four electoral terms (1969-1989). Executive power was concentrated in the hands of very few social agents that occupied roles and positions in several central political institutions controlling the structure of the Romanian Socialist state. The members of the Permanent Bureau included: the leader of the regime (Nicolae Ceaușescu), his wife (Elena Ceaușescu) and the head ministers of the primary ministry branches forming the Government of the Romanian Socialist Republic. These social agents also formed the executive leadership of the different inter-ministerial committees and represented the central authority of Great National Assembly of the Communist Party. This reinforces an idea that I continuously highlight throughout my study – the ‘multiplicity of roles’ of elites permeating the institutional structure of the Romanian political economy. There is an obvious overlap in the membership of the Permanent Bureau and the membership of the Secretariat of the Romanian Communist Party – there are political representatives with a position in both bodies of the CC across the four electoral terms (1969-1989), with some political players having membership in both the Permanent Bureau and the Secretariat during the same electoral term.

At first glance, the membership of the Secretariat might appear to be more diversified, including a wider array of “new” social agents. The membership of the Secretariat is formed of the leader of the regime, the head ministers of the primary ministry branches and the deputy ministers/minister counsellors forming the Government of the Romanian Socialist Republic. The social agents that appear as ‘unknown’ – more specifically, the political players that are not included in the membership of the Permanent Bureau – are in fact the deputy ministers and/or minister counsellors of the ministers that are members of the Permanent Bureau. This means that these “new” and “unknown” social agents are affiliated and/or subordinated to the key players controlling the most powerful political institution – the Permanent Bureau. My argument is that these deputy ministers and minister counsellors are an extension of the political powers and positionality of ministers and act as representatives of the key political players of the Permanent Bureau. There is actually more overlap in the membership of the CC than what is perceived, because the social agents permeating the power configuration are not independents; instead, they are affiliated and/or represent extensions of other key political actors. Hence, power is concentrated in the hands of the same political players – a very restricted group with a positionality in all the central political institutions shaping and controlling the structure of the Romanian Socialist state.

Figure 4.3 The Multi-levelled Institutional Structure of Political Players Controlling the Coal Mining Industry during the Socialist Regime (1970-1989)²⁴

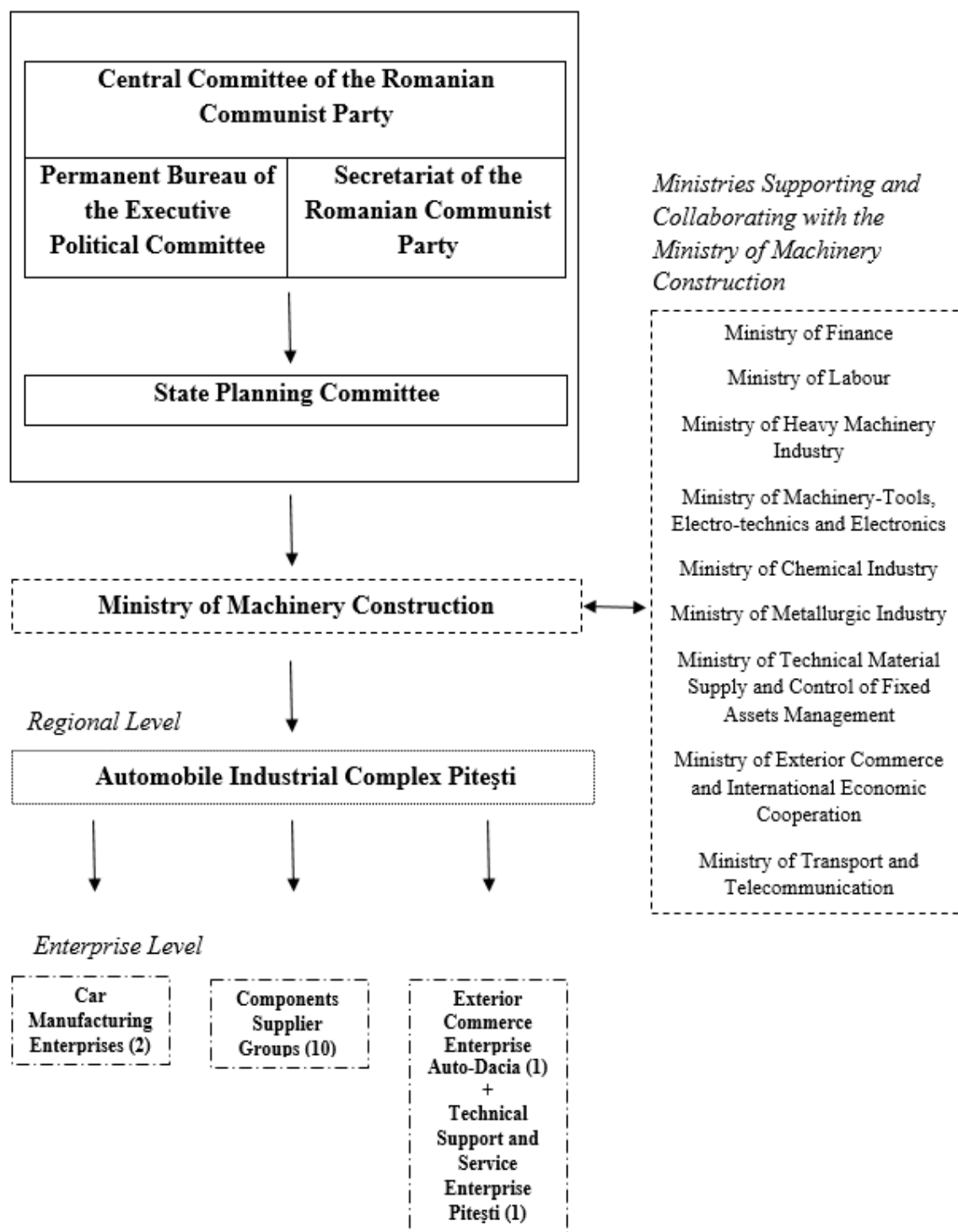
National Level



²⁴ National Romanian Archives Files 3064/27/1971; 3064/112/1971; 3064/33/1973; 3064/99/1973; 3064/19/1974; 3064/52/1976; 3294/65/1982; 3294/122/1982; 3294/234/1982; 3294/71/1987; 3294/177/1989; 3294/329/1989; 3354/13/1985.

Figure 4.4 The Multi-levelled Institutional Structure of Domestic Elites Controlling the Auto Industry during the Socialist Regime (1965-1989)²⁵

National Level



²⁵ National Romanian Archives Files 3064/40/1972; 3064/81/1972; 3064/108/1973; 3064/26/1975; 3064/74/1975; 3064/104/1976; 3294/163/1981; 3294/7/1982; 3294/198/1982; 3294/268/1982; 3294/280/1983; 3294/390/1984; 3294/4/1986; 3294/150/1986; 3294/238/1986; 3294/309/1986; 3294/53/1987; 3294/154/1988; 3294/172/1988; 3294/110/1989.

Table 4.1 Central Committee of the Romanian Communist Party Permanent Bureau of the Executive Political Committee Membership				
1969-1974	1974-1979	1979-1984	1984-1989	Number of Active Electoral Terms
Nicolae Ceaușescu	Nicolae Ceaușescu	Nicolae Ceaușescu	Nicolae Ceaușescu	4
Gheorghe Oprea	Gheorghe Oprea	Gheorghe Oprea	Gheorghe Oprea	4
Elena Ceaușescu	Elena Ceaușescu	Elena Ceaușescu	Elena Ceaușescu	4
Gheorghe Rădulescu	Gheorghe Rădulescu	Gheorghe Rădulescu	Gheorghe Rădulescu	4
Ilie Verdeț	Ilie Verdeț	Ilie Verdeț		3
	Emil Bobu	Emil Bobu	Emil Bobu	3
	Constantin Dăscălescu	Constantin Dăscălescu	Constantin Dăscălescu	3
Manea Mănescu		Manea Mănescu	Manea Mănescu	3
Ion Pățan	Ion Pățan			2
Cornel Burtică	Cornel Burtică			2
Paul Niculescu Mizil	Paul Niculescu Mizil			2
Ștefan Andrei	Ștefan Andrei			2
Iosif Banc	Iosif Banc			2
	Virgil Cazacu			1
	Nicolae Constantin			1
	Dumitru Popescu			1
			Ion Dincă	1

Table 4.2 Central Committee of the Romanian Communist Party Secretariat of the Romanian Communist Party Membership				
1969-1974	1974-1979	1979-1984	1984-1989	Number of Active Electoral Terms
Nicolae Ceaușescu	Nicolae Ceaușescu	Nicolae Ceaușescu	Nicolae Ceaușescu	4
Emil Bobu	Emil Bobu	Emil Bobu	Emil Bobu	4
Iosif Banc	Iosif Banc	Iosif Banc		3
Ilie Verdeț	Ilie Verdeț	Ilie Verdeț		3
	Ion Coman	Ion Coman	Ion Coman	3
	Silviu Curticeanu	Silviu Curticeanu	Silviu Curticeanu	3
	Constantin Radu	Constantin Radu	Constantin Radu	3
Ștefan Andrei		Ștefan Andrei		2
Constantin Dăscălescu	Constantin Dăscălescu			2
Virgil Cazacu	Virgil Cazacu			2
Marin Vasile	Marin Vasile			2
Dumitru Popa	Dumitru Popa			2
Ilie Rădulescu	Ilie Rădulescu			2
	Petru Enache	Petru Enache		2
	Ion Radu	Ion Radu		2
	Ion Stoian	Ion Stoian		2
		Vasile Bărbulescu	Vasile Bărbulescu	2
		Maria Ghițulică	Maria Ghițulică	2
		Ilie Matei	Ilie Matei	2
		Iosif Szasz	Iosif Szasz	2
Cornel Burtică				1
Mihai Gere				1
Gheorghe Pană				1
Iosif Uglar				1
Aurel Duma				1
Ion Stănescu				1
Vasile Mușat				1
	Ludovic Fazekas			1

	Dumitru Popescu			1
	Marin Enache			1
	Gheorghe Stoica			1
	Miu Dobrescu			1
	Lina Ciobanu			1
		Cornel Pacoste		1
		Radu Bălan		1
		Constantin Mitea		1
		Gheorghe Tănase		1
		Constantin Olteanu		1
		Constantin Radu		1
		Ion Sârbu		1

4.5 The Fall of the Romanian Socialist Regime and the Ensuing Period of Economic Crisis and Industrial Decline (December 1989-1998)

Halfway through the Sixth Five-Year Plan (1976-1980), the regime's economic order began to experience a slowdown. The economy was plagued by a series of negative characteristics: low quality of production; industrial shortages of materials, components and machinery; labour market saturation; low labour productivity; cost of production exceeding the sales price of produced goods; and an overall stagnating growth in all industrial branches (Cernat, 2006; Ban, 2012). After decades of growth, oil output began to decline; the oil crises of 1973 and 1979 forced Romania to import oil at price rates too high to permit its newly built petrochemical plants to operate profitably. Furthermore, coal, electricity and natural gas production levels fell short of the targets set out in the plan, further worsening the rapidly deteriorating state of the Romanian economy. A devastating earthquake in 1977, followed by a severe drought that crippled agriculture, an overall macroeconomic climate with rising interest rates, a slump in foreign demand for Romanian goods, and the escalating price for petroleum-based imported goods pushed the country into a balance of payments crisis (Ban, 2012). The oil shocks of the 1970s in combination with the deteriorating macroeconomic conditions permeating the Euro-Atlantic capitalist core created conditions for a debt crisis in Socialist countries such as Romania (Blyth, 2002; Kotkin and Gross, 2009).

At great economic and political costs, the Romanian Socialist regime decided to repay its foreign debt in full and in the span of only a few years (Reinhart and Rogoff, 2009). The decision has been labelled as irrational, with the literature characterising the Romanian model as an oddity (Reinhart and Rogoff, 2009). This is because other developing Socialist countries in CEE affected by the 1980s debt crisis successfully asked for debt rescheduling and 'haircuts' for creditors (Ban, 2012). The Ceaușescu regime's decision to pay its sovereign debt in full and within a relatively short timeframe – instead of defaulting or opting for more attractive debt restructuring conditions – was strongly influenced by the ideas and principles the regime used to define and pursue institutional development. More specifically, the regime's underlying ideas highlighted the importance of continuing the process of industrialisation and the implementation of unencumbered policy sovereignty. Consequently, Ceaușescu's response to the ensuing debt crisis was characterised by the design and application of a radical austerity package in conjunction to the creation of an inward-oriented institutional framework that supported a policy mix of import reduction, export

promotion, the termination of foreign capitalist collaboration and disengagement with Western finance capital, and the sole reliance and expansion of internal production capacities utilising indigenous capital and technological resources. The regime's debt reduction policies imposed during the 1980s created a climate of terrible hardship for the Romanian population. The strong export orientation resulted in reduced supplies of food, clothing, footwear and gasoline. Shops with increasingly empty shelves, long queues for everyday items that could last up to several hours, and a growing need to turn to the grey economy to procure every day necessities became the realities of the 1980s Romanian consumer (Dragomir, 2008). Furthermore, in an attempt to slash private and public consumption even further, we saw the introduction of food rations, regular electricity and heating cuts (even during sub-zero temperatures) and massive health spending cuts that effectively banned the importation of medical supplies (Ionete, 1993). Gradually, the austerity programme made it impossible to sustain decent working conditions and led to the formation of a precarious work model. Within the expanding import substitution industrialisation framework, management attempted to meet the increasingly ambitious export targets through increased work intensity, night shifts, working Sundays, and higher quotas at no extra pay (Ban, 2012).

In the spring of 1989, the regime leadership announced that Romanian's foreign debt had been paid in full. Furthermore, the political economy had accumulated a budget surplus of 8.2 per cent and exports valued at around 10 billion US dollars – this represented only 3 billion US dollars less than the considerably larger Polish economy (almost double in size) (Ban, 2012). However, while the more libertarian Socialist economies of the CEE region were stagnating in 1989, Romania's economic condition was far worse, especially when examining GDP indicators. More specifically, while Romania experienced an annual growth rate of 11.2 per cent between 1971 and 1980; during the 1980s, this figure dropped to 2.6 per cent primarily because of the massive drop of -5.8 per cent registered in 1989 (Ionete, 1993; Amsden et al., 1994). This massive decrease in economic growth further confirmed the failure of the austerity package and the programme of forced assimilation via import substitution.

The Romanian Revolution was an instance of violent civil unrest that erupted in Romania in December 1989 as part of the Revolutions of 1989 that occurred across the Eastern Soviet Bloc (Cernat, 2006). The Romanian Revolution started in Timișoara and soon spread throughout the entire country, ultimately culminating in the summary trial by a 'kangaroo court' and execution of the long-time Communist Party leader Nicolae

Ceaușescu and his wife Elena Ceaușescu (Deputy Prime Minister). The Revolution marked the end of 42 years of Socialist rule in Romania. What makes the Romanian case unique is that it was the only violent overthrow of a Marxist-Leninist government in the Warsaw Pact and the only removal of a regime that resulted in the execution of its leader.

Social and economic malaise had been present in Socialist Romania since the early 1980s, when the regime's debt reduction policies and austerity measures created a climate of terrible hardship for the Romanian people (Ionete, 1993; Ban, 2012). In response, the Romanian population sought revolution and a change in government – this movement gained momentum from the other similar instances of civil unrest in neighbouring nations from the Soviet Bloc (interview code S_4). In an attempt to appease the masses, the Communist leader Nicolae Ceaușescu made a public speech that was broadcasted to millions of Romanians on state-owned television. The speech was similar to most of Ceaușescu's speeches over the years, making liberal use of Marxist-Leninist rhetoric and delivering a litany of the achievements of the 'Socialist revolution' and the Romanian 'multi-laterally developed Socialist society'. Ceaușescu addressed an assembly of approximately 100,000 people in Bucharest's Palace Square (now Revolution Square). Senior party officials made great efforts to make it appear that Ceaușescu was still very popular and in control of the structure of the state, organising several busload of workers, under threat of being fired, to come to Bucharest and support the regime's leadership with cheers, applause, red flags, banners and large pictures of Ceaușescu (interview code S_4). Apart from the people in the front rows that had been brought by the Communist Party, the people in the assembly remained unresponsive. About two minutes into Ceaușescu's speech, some in the crowd actually began to jeer, boo, whistle and yell insults at him – a reaction unthinkable for most of his rule. The assembly soon turned into a protest demonstration.

Over the course of the next few days, the majority of rank-and-file military members switched from supporting the regime's leadership to backing the protesters (Hirshman, 2009). A series of riots, street violence and murder erupted in several of the larger Romanian cities over the course of roughly one week (Sebestyen, 2009). This resulted in the Communist leader fleeing the capital city Bucharest together with his wife on the 22nd of December. The swift escape via helicopter effectively portrayed the couple as both fugitives and amplified their guilty image to the public (interview code S_4). Captured in Târgoviște, the couple was tried on the 25th of December 1989 by a military

drumhead tribunal on charges of genocide, damages to the national economy and abuse of power to execute military actions against the Romanian people. The couple was not given access to an appropriate defence, nor were they given any time to prepare their defence (interview code S_4). They were convicted on all charges, sentenced to death, and immediately executed on the 25th of December 1989. What is perhaps most striking is the fact that the political players that convicted the Ceaușescus were part of the same dominant coalition – key political players that were part of Ceaușescu's power configuration that controlled the structure of the Romanian Socialist state (interview code S_4). These political players went on to form the transition government in the newly formed democratic regime.

There was a state of economic chaos after the Revolution and fall of the Socialist regime in 1989 (Cernat, 2006). The industrial landscape of the 1990s was characterised by a general lack of capital, inefficient investments, the low level of productivity of operations, an obsolete industrial apparatus and a shortage of materials, an outdated array of inferior quality products, production costs exceeding the sales price of manufactured goods, poor sector-level management, the absence of a customer culture, limited innovative capabilities, an outdated supplier network, excessive labour, and extreme levels of account payables (World Bank, 1998; Cernat, 2006; Ban, 2012; Moghioroși, 2014). Thus, the institutional configuration of the Romanian industry was plagued by an acute financial crisis during the 1990s.

Perhaps contrary to public expectations, the collapse of Socialism and the immediate impact of the economic reforms resulted in a severe 'transition recession' – also termed as the 'Great Post-communist Depression', the 'great transitional recession', or the 'great output contraction (Kolodko, 1999, 2000, 2002; De Broeck and Koen, 2000; Rosefielde and Kuboniwa, 2003). Romania experienced a steep decline in GDP. The length and depth of the transition recession in the Romanian national variety was not foreseen. In the context of the CEE region, different CEE national political economies experienced different variants of transition recession in terms of both length and intensity (Cernat, 2006). For example, 'J-shaped' countries such as Poland, Slovenia and Hungary experienced growth by 1994. According to Cernat (2006), Romania is part of the group of the countries that experienced an 'L-shaped' trend in economic growth. What this tells us is that the initial transitional years culminated into a sharp drop in economic growth, followed only by a gradual and incomplete recovery (Martin, 2013).

Following a period of 10 years of post-Socialist transformation, in 2000 Romania was yet to reach its 1990 GDP level.

The early 1990s were characterised by a deep scarcity of financial resources necessary for the operation and survival of domestic enterprises. The collapse of the Socialist cooperation system and international trading linkages within CMEA combined with the intense regional/international competition brought on by trade liberalisation resulted in the emergence of a financial crisis (credit crunch) for Romanian enterprises. Domestic banks had very limited funds and were constrained by major commitments and extensive portfolios of non-performing loans (Cernat, 2006). In 1990, a two-tier banking system was established in Romania, with the National Bank of Romania (the BNR) as the central bank and several commercial banks as secondary financial players. By 1998, 47 commercial banks had been set up, out of which 36 were Romanian (seven state-owned, five owned by domestic private capital, eight founded using foreign private capital and 16 private with foreign and/or domestic capital) and 11 were subsidiaries of foreign banks (Doltu, 2000). The state-owned banks were the most powerful players, owing approximately 64.2 per cent of assets (Cernat, 2006). Their central business activity was comprised of loans to the private sector, with foreign-owned private banks catering to the needs of the multinational sector and domestically-owned private banks servicing the domestic small- and medium-sized enterprise sector. According to Cernat (2004), domestic private banks were both small and fragile, often plagued by bankruptcies and scandals.

The process of restructuring of the Romanian banking system occurred at a later stage during the transformation decade and was much more gradual vis-à-vis the process of restructuring of the banking sector in the Visegráds (Cernat, 2004, 2006; Myant and Drahokoupil, 2011; Martin, 2013). According to the EC (2001a, 2001b), in 2000 the banks that were still in state ownership accounted for a proportion of 35 per cent of credit stock, despite the fact that a more active policy package had been implemented since 1997 to privatise the banking sector. In the 2001 Progression Report towards accession status, the EC stated that the Romanian banking system was underdeveloped, with total assets representing less than 30 per cent of GDP, domestic credit slightly over 10 per cent of GDP and deposits amounting to approximately 20 per cent of GDP (EC, 2001a, 2001b). According to Cernat (2006), the client-parent relations between politicians, business representatives and bankers supported the continuation of financial practices prevalent during the Socialist period. These included soft budget constraints

and a high level of availability of credit at uncompetitive interest rates for ‘national champions’ and enterprises that were protégés of the state – practices that led to a high proportion of ill-performing loans (Bohle and Greskovits, 2013). In a 1997 assessment, 57 per cent of loans in the Romanian banking system were classified as non-performing vis-à-vis 29 per cent registered in the Czech Republic, 10 per cent in Poland and 4 per cent in Hungary respectively (EBRD, 1998: 133 in Martin, 2013). The weak state capacity and skeletal regulatory regime paved the way to cementing a system characterised by widespread fraud (Cernat, 2006). Cernat (2004) argues that in an institutional architecture defined by unstable and weak rules and codes, the trilogy of financial restructuring, privatisation and deregulation created asset-stripping and rent-seeking opportunities for patrons and their clients in the Romanian banking system. The representatives of capital took advantage of their privileged position in the political spectrum in order to be ‘first served’ in the licensing of new banks, thus turning the Romanian financial sector into a ‘cash-cow’ to be used as a source of personal wealth accumulation by key political players and the representatives of capital (Gallagher, 2005).

The privatisation paradigms implemented in Romania throughout the 1990s were the most erratic and slow among CEE political economies (Cernat, 2006; Martin, 2013). Earle and Telegdy (2001) argue that the most common form of privatisation constituted management and employee buyouts (MEBOs); however, MEBOs could only be carried out with the help of substantial state financial aid. Moreover, the authors claim that the voucher privatisation programme was just a window-dressing exercise, with the purpose of maintaining the illusion that the labouring class was regarded as an influential institutional player and to consolidate façade citizen ownership rights. OECD (1993a, 1993b) data indicates that only 30 per cent of approximately 6,300 Romanian state-owned enterprises were privatised via free vouchers by comparison to 97 per cent in the Czech Republic and 55 per cent in Poland respectively. According to Earle and Telegdy (2001), the implication of foreign and international agents in the process of privatisation in Romania was marginal vis-à-vis other CEE political economies – by the end of 1998, only 2.4 per cent of privatised enterprises were via foreign acquisition.

Table 4.3 Privatisation across CEE during Transition: Percentage of Privatised State-owned Enterprises out of Total Number of State-owned Enterprises for Different CEE Countries

Country	1992	1995
Czech Republic	60	87
Hungary	27.5	82
Poland	20	55
Slovakia	43	74
Slovenia	Na	54
Bulgaria	Na	15
Romania	0.22	20

Source: OECD (1993a, 1993b), World Bank (1997).

Table 4.4 Privatisation across CEE in 1995: Percentage of Privatised Industrial State-owned Enterprises for Different CEE Countries

Country	Industrial Enterprises	
	% of Total Industrial Enterprises	Weighted by Industrial Output (%)
Czech Republic	89	93
Hungary	67	65
Poland	61	60
Slovakia	79	83
Slovenia	41	41
Bulgaria	8	7
Romania	15	12

Source: OECD (1993a, 1993b), World Bank (1997).

The Romanian government was on the verge of a macroeconomic crisis by the mid-1990s, facing collapsing revenue streams and escalating costs that increased even further the already high public sector deficit and deepened the fiscal crisis (Gaspar, 1998). Faced with a liquidity crisis, the government was unable to provide investment funds to domestic enterprises for either organisational/technological restructuring or basic day-to-day running of operations. When analysing domestic private investors, the institutional context of the 1990s included very few players (Cernat, 2006). When it comes to analysing the types of investments that characterised the institutional setting, privatisation schemes, capital flight and government bonds dominated since they were considered ventures that offered higher, short-term and less risky returns vis-à-vis the long-term, high risk investments in de novo domestic production capacities. As Myant has put it, the institutional context in post-Socialist political economies in the CEE region was defined by an absence of capitalists and capital (2007).

To overcome this credit crisis, cash-strapped enterprises adopted short-term and/or ‘informal’ solutions, such as short-term loans, they coerced credits from clients,

suppliers and other business partners, and they engaged in the evasion of tax obligation payments (Martin, 2013; Bartlett, 1998). However, I need to emphasize that these were short-term and transient measures, in the long term their utilisation was not sustainable, and as such, investment resources had to be secured from outside of the CEE region from a range of international players – foreign banks, International Financial Institutions (IFIs), MNCs and portfolio investors. As Drahokoupil argues (2008a, 2008b), the initial institutional framework and internally-oriented strategies of neoliberal adjustment focused on the creation of domestic production capacities via the utilisation of domestic sources of investment, indigenous technological resources and domestic talent. Similarly, Birch and Mykhnenko (2009) argue that the resulting Romanian institutional configuration of the 1990s was a post-Socialist inward-oriented form of capitalism with minimal liberal characteristics. However, by the late 1990s these inward-oriented industrial policies and institutional directions proved to be unsuccessful. Instead, they were replaced with externally-oriented strategies emphasizing the promotion of competitiveness by attracting foreign investors (Birch and Mykhnenko, 2009).

4.5.1 Exploring the Labour Crisis of the Late 1990s

By the late 1990s, the economic crisis plaguing the majority of Romanian industrial branches triggered a so-called crisis of the labouring class. The labouring classes reacted to the institutional measures imposed by the dominant elites from the political sphere by challenging the decision to restructure and/or terminate various sectoral economies of the national political economy (Cernat, 2006; Myant and Drahokoupil, 2011). More specifically, the instances of labour unrest represented the efforts of the labouring classes to impede the process of industrial decline. In fact, by attempting to stop the process of industrial decline, labour sought to maintain its power and position within the existing power structure. As I have emphasized in Chapter 2, there are constant fluctuations regarding the identity and internal distributions of a dominant coalition (North et al., 2007, 2009, 2013). Compromises have to be made between subcoalitions and there is a continuous renegotiation of rents and privileges. Every now and then, some of these subcoalitions will suffer from a loss in identity strength and legitimacy, ultimately losing their powers and positionality. Central to the politics of class is the ability of some groups to exclude others from the coalition or power structure where value can be accessed, accumulated and/or converted (Bourdieu, 1989; Lamont, 1992; Skeggs, 2015).

Regional literature characterises the institutional configuration of the CEE region as a site of conflict, struggle and contestation between key political players and the representatives of large business groups – the super-wealthy and elite class, whereas the proletariat or labouring class has suffered from a continuous loss of power and positionality within the overarching power structure of the state (Funk and Lesch, 2004; Cernat, 2006; Mrozowicki, 2011, 2014; Ribarova, 2012; Trif, 2012; Martin, 2013). Cernat (2006) talks about the existence of an alliance between politicians, directors (managerial elite) and labour (trade union leaders) that dominated the Romanian institutional configuration during the first decade post-Socialism. According to Cernat, by the end of the 1990s, the polity and capital succeeded in ousting labour from the alliance and thus, we saw the re-emergence of a new dominant coalition with a much more restricted membership and higher concentration of power. Ultimately, by tightly managing the structure and composition of the dominant sub-coalition, the dominant elites placed institutional control of Romanian industrial branches in the hands of fewer levels of individuals from fewer spheres of influence. In doing so, the proportion of rents distributed to each dominant elite member rose, as the overall extracted wealth was now divided amongst fewer social partners (Cernat, 2006; North et al., 2009, 2013). Hence, despite the unfolding of various instances of labour unrest, the labour class did not succeed in preventing the implementation of an institutional path of severe de-industrialisation, massive loss of full-time employment and wholesale downgrading of economic activities and skills (Birch and Mykhnenko, 2009).

Described as the most violent and well-organised instances of labour unrest during the 1990s, the *Mineriadas* represented a series of mass demonstrations in the coal mining sector that threatened to destabilise the entire institutional structure of the Romanian political economy (Cernat, 2006). In order to prevent the re-emergence of this internal crisis, the dominant elites orchestrated the gradual and consistent delegitimacy of the labouring classes, ultimately dismantling the CME-like model of industrial relations and reconstructing it based on LME principles (Ban, 2013; Trif, 2007, 2012). Hence, one can argue that these instances of labour unrest at the sectoral-level influenced a process of labour market deregulation and the weakening of industrial relations at the national scale.

4.6 International Forces and their Effect on the Institutional Configuration of the Romanian Political Economy (late 1990s-2010s)

I argue that international forces act as a force of change with which the domestic elites engage and interact triggering institutional change and transformation across the different spatial scales of the national political economy. Together the two categories of institutional players designed and implemented a variety of institutional directions – institutional paths of destruction, institutional paths of re-construction and industrial upgrading, and institutional paths of creation – and drove the implementation of labour policies that significantly transformed the institutional configuration of the state (Birch and Mykhnenko, 2009).

The end of the 1990s marked the establishing of new foreign-led institutional paths within the Romanian national political economy that resulted in the termination of various industries, the creation of new industries, while other industries embarked on a process of re-construction and upgrading. The implementation of these institutional paths was driven by the insertion of FDI and supranational policy (emanating from the World Bank and IMF) into the national political economy and supranational policy emanating from various international institutions (Larionescu et al., 1999; Haney and Shkaratan, 2003; Cernat, 2006; Dudian, 2011; Bohle and Greskovits, 2013; Ban, 2013; Martin 2013). Thus, the institutional context saw a radical shift in the type of industrial policies pursued – more specifically, the institutional orientation changed from a series of inward-oriented, populist schemes of industrial development to liberal market forms of foreign collaboration and industrial transformation (Birch and Mykhnenko, 2009).

The impact of international forces and foreign agents was far from being institutionally homogenous across the national political economy (Boyer, 2005; Crouch, 2005; Crouch et al., 2009; Scheneiberg, 2007). The intervention of foreign capital had diverging institutional effects on the different sectoral economies of the post-Socialist Romanian capitalist variety. What this indicates is that the presence and actions of international forces created differentiated sub-national concentrations of governance and industrial policy, or put another way, drove the formation of diverging institutional paths that exist in parallel within the national economy (Voelzkow et al., 2006a, 2006b; Crouch and Voelzkow, 2009; Crouch et al., 2009). More precisely, if we compare the institutional configuration of coal to that of auto and assess the role played by international forces within each industrial branch during the 1990s, the former sector is characterised by the

implementation of a foreign-led institutional path of destruction, whereas the latter experienced the implementation of a foreign-led institutional path of re-construction and industrial upgrading.

CEE economies have attracted considerable amounts of FDI starting with the 1990s. While the first decade post-Socialism was dominated by manufacturing-oriented FDI flows, service-oriented FDI began to accelerate within the geographical region starting with the early 2000s (Myant and Drahokoupil, 2011; Sass and Fifeková, 2011; Iosof and Vasloban, 2013; Martin, 2013). According to Capik and Drahokoupil (2011), the first receivers of service-oriented FDI were the more economically developed and politically stable Visegrád states (however, in this perspective Slovakia proved to be a quasi-laggard). The second wave of service-oriented FDI was experienced by Romania and Bulgaria. FDI flows began to enter this region starting with 2003-2004, with the trend accelerating considerably after the two countries joined the EU in January 2007 (McKinsey & Company, 2006; Profiroiu et al., 2008; Dudian, 2011; Ban, 2013; Iosof and Vasloban, 2013).

In the early 2000s, the Romanian national variety did not possess the necessary (domestic) capital and capitalists to create this new institutional path or new sectoral economy. Hence, the creation of the new institutional path required the presence of capitalist forces 'from without' in the form of MNCs and foreign capital (King, 2007). The regional literature argues that external dependency and reliance on foreign capital is a central characteristic of the CEE region (Nölke and Vliegenthart, 2009; Myant and Drahokoupil, 2011; Ban, 2013; Martin, 2013). Birch and Mykhnenko (2009) argue that external dependency in conjunction with the absence of indigenous resources – capitalists and capital – have resulted in the creation of a weakly coordinated or softly regulated post-Socialist institutional framework.

The emergence of the business services sector in Romania during the second decade post-Socialism involved a break from the heavy industry-oriented past and the creation of a new institutional path that co-existed alongside the older and more traditional sectoral economies. According to Birch and Mykhnenko (2009), this scenario of structural adjustment across the CEE region entailed a moderate degree of de-industrialisation and a moderate development of services. However, as far as the development of technological capacities in Romania is concerned, the institutional configuration of business services was characterised by the rapid and significant growth

of high-tech services, as well as the development of more downstream non-analytical service-based activities (Högselius, 2003).

4.7 The Transformation of the Romanian Industrial Relations System: The Labour Reform in 2011

The existent literature on industrial relations in CEE post-Socialist political economies talks about a weak and fragmented trade union system (Crowley and Ost, 2001). According to Mrozowicki (2011, 2014) and Stanojević and Klarič (2013), the trade union movement suffered a gradual decline in power in CEE throughout the three decades of post-Socialism despite the active struggles in some states to resist the neoliberal turn. The loss of trade union power can be explained by a combination of factors. Firstly, the Socialist legacy of compulsory trade union membership, which meant that no efforts had to be made to recruit new members and ultimately retain them, was no longer applicable. Secondly, although the ‘servicing model of unionism’ was deeply embedded and had a long-lasting tradition, it became increasingly difficult for trade unions to provide various services to its members, due to the economic deterioration, limited resources and declining membership fees (Ost, 2005). Economic deterioration and reform packages led to the restructuring and closure of a multitude of state-owned unionised enterprises, which triggered a fall in trade union membership and consequently, the decline in the amount of union resources (Trif, 2012; Trif, 2007). Collective bargaining agreements in CEE are primarily undertaken at the firm-level, with multi-employer agreements’ existing but applying to a selective sample of enterprises (Funk and Lesch, 2004). Furthermore, authors speak about the deterioration of labour standards (Woolfson, 2007) and the flexibilisation of working conditions (Ban, 2013). Hence, the regional literature conceptualises the existence of a labour regulation model in CEE that is highly skewed towards the neoliberal spectrum.

In 2011, the centre-right Romanian government under Prime Minister Emil Boc introduced the most radical statutory changes to collective bargaining and trade union law since the fall of the Socialist regime. These changes to the institutional configuration of industrial relations were designed and implemented by domestic elites from the political sphere; however, these institutional players did not act independently. Instead, the supranational regulatory policy emanating from the EU has strongly influenced national-level policy (Lillie and Greer 2008). Moreover, there was a push from FDI representatives to deregulate the institutional framework of industrial

relations across CEE (Trif, 2012; Nölke and Vliegenthart, 2009). According to Ban (2013), under the Boc and Tăriceanu governments (2005-2011), international forces have driven the neoliberal transformation of the Romanian society and its economy. Furthermore, the author claims that an alliance emerged between the state and the MNC sector that sought to weaken Romanian industrial relations and bring them in line with those of regional competitors. Thus, the argument that I am making is that international forces played an important role in influencing labour policy within the Romanian institutional configuration and ultimately, driving labour market deregulation through the most radical industrial relations reform to collective bargaining and trade union law in post-Socialist Romania. These changes to collective bargaining agreements (CBAs) and trade union law reinforced the existence of an industrial relations institutional complementarity in the Romanian political economy strongly resembling that present in LMEs (Clark and Almond, 2006; Hall and Gingerich, 2009; Deeg, 2012; Doellgast, 2012; Ban, 2013). Labour and social legislation was dramatically modified as the New Labour Code was approved at the beginning of the year, followed by the ratification of the Social Dialogue Code (Barbuceanu, 2012; Domnişoru, 2012). Practically, the New Labour Code dismantled the institutional and legislative foundations in relation to national and economic associations' collective agreements, thus abolishing the unique national collective bargaining agreement that had been effective since 1991 (Ciutacu, 2011). Ban (2013) and Nölke and Vliegenthart (2009) emphasize that similar policy measures were implemented in all the CEE states.

Based on the new legislation, collective bargaining was institutionalised from that moment onwards at the sectoral-, the group- (group of units) and the firm- (unit) level. The institutional framework of a single, unique CBA was replaced by a framework with multiple, 'specific' or more individualised agreements. Furthermore, my findings indicate that until 2011 CBAs had an extended coverage, including parties that were not involved in the actual negotiation or parties that had no affiliation to any of the negotiating partners (Ciutacu, 2011). However, under the new legislative framework CBAs apply only to signatory parties, meaning that the employees of new entrants need to negotiate their own CBA. Because of the New Labour Code, most CBAs are established at the firm-level (unit). As such, the new legislative framework has shifted power and control towards the employer. Employers favour and accept the negotiation and signing of firm-level CBAs, because under the period of enforcement of the contract strike action is declared forbidden. De facto, the new collective bargaining

legislation enables the employer to protect himself from industrial unionism (i.e. across an industry). At the group- and sector-level, this constraint on strike action does not exist – thus, making employers increasingly unwilling to sign CBAs at a broader scale.

These legislative changes to CBAs were accompanied by an institutional transformation of the power and entitlements granted by the Labour Code to trade union leaders (Barbuceanu, 2012; Domnişoru, 2012). The institutional modification to the Labour Code resulted in the downgrading of trade union leader powers. The new legislation stated that the payment of hours/days worked as trade union activities were now unconstitutional. Furthermore, trade union leaders were no longer protected during their term against wrongful dismissal. This is seriously repressive legislation that was designed to not only weaken the position of trade union leaders, but also to make the position undesirable to workers and as a result, to refrain from organising.

4.8 Conclusion

During the first two decades of Socialism, Romania was a primarily agrarian economy with a weak and underdeveloped industrial sector (Burakow, 1981). It was not until the early 1960s that the leadership of the Romanian Socialist Party decided to pursue the implementation of a national-level industrialisation programme. My investigation of archival documents revealed that the two main institutional outcomes sought were 1) the creation of an energy-based economy based on the utilisation of indigenous reserves of raw materials and 2) the re-development of the machinery construction industry and all its subordinated industrial divisions.

The historical period 1965-1989 is defined by the expansion of industrial production capacities in all industrial branches deemed of national importance by the leadership of the Romanian Communist Party. As I have shown earlier, the historical timeframe of the expansion of production capacities can be divided into two distinct periods during which the Romanian Socialist political economy pursued highly differentiated industrial policies and programmes of industrial development. The analysis revealed that between 1965 and 1973 the industrial policy programme implemented in the Romanian Socialist regime promoted a high level of dependency on technological imports, licenses and foreign collaboration. The institutional structure of all Romanian industrial branches had inadequate technological resources and as a result, the realisation of the national production plan and the process of industrial upgrading were highly dependent on the

perpetuation of this open, import-dependent economic paradigm. The historical period 1965-1973 was one of industrial growth, diversification and upgrading – an institutional trajectory driven by the collaboration between domestic elites from the political sphere and foreign elites in the form of technological imports. Starting from 1973, the leadership of the Romanian Communist Party shifted the institutional configuration of all industrial branches by reducing foreign collaboration and minimising the dependency on technological imports. The new economic model envisaged the development of all industrial necessities internally and the elimination of any form of ‘import-related’ type of collaboration with social agents from ‘the West’. My analysis highlighted the fact that the re-orientation of industrial policy obstructed technological upgrading and diversification across the majority of Romanian industrial branches. The reduction of imports and the reliance on internal technological capacities resulted in an industrial structure plagued by insufficient and inappropriate technology and materials. The majority of Romanian industrial branches embarked on a process of ossification that started in the Socialist period and continued after 1990.

The Romanian Revolution was an instance of violent civil unrest that erupted in Romania in December 1989 and marked the end of 42 years of Socialist rule in Romania. After the fall of the Socialist regime, a state of economic chaos ensued. As I discussed previously in the chapter, there were a series of structural problems that permeated the institutional context including a general lack of capital, inefficient investments, low productivity levels, an obsolete industrial apparatus, shortage of materials, an outdated product portfolio, production costs exceeding the sales price of manufactured goods, poor sector-level management, lack of a customer culture, limited innovative capabilities, an outdated supplier network, excessive labour, and extreme levels of account payables. The persistence of the economic crisis triggered a so-called crisis of the labouring class. More specifically, in the late 1990s the labouring classes challenged the institutional measures implemented by the dominant elites from the political sphere, who sought to restructure and/or terminate various sectoral economies of the national political economy. The different instances of labour unrest constituted the efforts of the labouring classes to retain their identity strength and legitimacy within the existing power structure. However, the late 1990s marked the exclusion of labour from the overarching power structure of the state, with the alliance between the polity and capital capturing the state apparatus and Romania’s industrial orders.

My analysis revealed that starting from the late 1990s, a set of foreign-led institutional paths were established across the Romanian political economy. The implementation of these institutional paths was driven by the insertion of FDI into the institutional structure of Romanian capitalist variety. Hence, the Romanian institutional framework saw a radical shift in the type of industrial policies pursued – more specifically, the institutional orientation changed from a series of inward-oriented, populist schemes of industrial development and re-organisation to liberal market forms of foreign collaboration and industrial transformation (Birch and Mykhnenko, 2009). The presence of international forces and foreign agents was not institutionally homogenous and had diverging institutional effects across the different sectoral economies of the post-Socialist Romanian capitalist variety. If we compare the institutional configuration of the three sectors my study analyses and assess the role played by international forces within each sector, coal mining is characterised by the implementation of a foreign-led institutional path of destruction, auto experienced the implementation of a foreign-led institutional path of re-construction and industrial upgrading, and business services involved a break from the heavy industry-oriented past and the creation of a new institutional path driven by foreign agents.

In 2011, the centre-right Romanian government introduced the most radical statutory changes to collective bargaining and trade union law since the fall of the Socialist regime. The modifications to the Labour Code further weakened the powers and positionality of the labouring classes within the structure of the state, positioning the configuration of industrial relations more towards the LME end of the spectrum. The changes to the institutional configuration of industrial relations were designed and implemented by domestic elites from the political sphere; however, these institutional players did not act independently. The EU played an important role in influencing labour policy within the Romanian institutional configuration and ultimately, driving labour market deregulation.

Chapter 5

Investigating the Role of Elites in Influencing Institutional Change in the Romanian Coal Mining Sector (1960s-2010s)

5.1 Introduction

This chapter discusses the position of the coal mining sector within the Romanian institutional configuration between the 1960s and 2010s, and provides evidence of how different types of elites have influenced the structure of the institutional order throughout time.

The second section of the chapter is a discussion about the identity of elites. I construct a categorisation of ‘elites’, in order to highlight the different levels of power and positionalities and thus, capture the hierarchical structure of elites. There is a clear distinction between ‘dominant elites’ and other competing ‘elites’, with the former having a superior position and predominant decision-making powers within the institutional configuration of the political economy.

In the third section, I capture the story of institutional change in the Romanian coal industry, by identifying two instances of interplay between the dominant elites and different forces of change that permeate the internal dynamics of the coal mining sector. The first instance analyses the interaction between the dominant elites and industrial policy. The second instance examines the interaction between dominant elites and labour that defines the institutional context of Romanian coal mining. The instances of interplay between the dominant elites and the different forces of change represent the central framework that I use to illustrate how institutional change is driven within the sector, what are the different types or varieties of change that occur, who are the main actors who drive the change and how the identity of these main actors has or has not fluctuated over time, and when does the change occur or what is the timeframe of the change.

In the fourth section of this chapter, I re-consider the key moments of institutional transformation emerging from the preceding empirical analysis and draw conclusions on how the interplay between the different categories of social agents influenced the institutional setting of the coal mining sector throughout time.

5.2 Identifying and Mapping the Identity of Elites in the Romanian Coal Mining Sector

In order to understand how transition and institutional change have occurred through the dominant elites within the Romanian coal mining sector, an analysis regarding the identity of players has to be carried out. The variegated neoliberalism (Bohle and Greskovits, 2013) and historical institutionalist (North et al., 2007, 2009, 2013) literatures fail to systematically unpack the concept of ‘dominant elites’ and are unable to design a framework that explains the inner functioning and structure of the dominant coalition. Moreover, the two literatures fail to construct a hierarchy of elites. There are diverging levels of power, roles and spheres of influence within a power structure – a fundamental aspect that the two literatures do not incorporate in their explanation of elites. Furthermore, there is no distinction being made between the categories of ‘elite’ and ‘dominant elite’ to reflect the fact that even among the elites there is a leading sub-coalition of power, and one or more sub-coalitions that are inferior in terms of power and positionality to the ‘dominant sub-coalition’.

5.2.1 Role of Domestic Elites from the Political Sphere within the Institutional Structure of the Romanian Coal Mining Sector

The dominant elites from the political sphere captured the state and through the state they captured the coal mining sector, due to the fact that private ownership was not allowed during the Socialist regime (Ban, 2012; Martin, 2013). Control over the sector has been retained by the dominant elites throughout the timeframe of my thesis, despite the fact that there have been major fluctuations in the structure and composition of the dominant coalition. This confirms the validity of North et al.’s (2007, 2009, 2013) assumption that elites are stable but not static. The dominant elites co-exist alongside other competing categories of social agents within the institutional setting.

During the Socialist regime, state control and decision-making powers were concentrated in the hands of the CC of the Romanian Communist Party – ‘the CC’. The CC was divided into two bodies: the Permanent Bureau of the Executive Political Committee and the Secretariat of the Romanian Communist Party. The members of these two bodies were dominant elites that controlled and captured the Romanian state.

The CC along with the State Planning Committee and the individual ministries constituted the dominant sub-coalition.²⁶ The composition of these bodies has been constant throughout the Socialist period, with the dominant elites retaining their positions of power. Rather than seeing fluctuations in the composition of the dominant sub-coalition, what we see is a rotation of dominant elites and their occupation of different positions within the same sub-coalition, strongly reinforcing the concept of the ‘continuity of elites’. This becomes very evident when we observe the composition of the Permanent Bureau of the Executive Political Committee and the Secretariat of the Romanian Communist Party. The membership of the two bodies of the CC remains homogenous and highly limited to a small number of players over the four electoral terms (1969-1989), which indicates a high concentration of power in the hands of a stable group of central players.

Furthermore, what emanates from the archival materials is a ‘multiplicity of roles’, with the dominant elites holding multiple positions within the national-level state institutions.²⁷ If we compare the composition of the two bodies of the CC we can observe a strong overlap in membership during the four electoral terms between 1969 and 1989. Furthermore, the membership of the CC, the State Planning Committee and the individual ministries is also strikingly similar, with a large proportion of dominant elites occupying a position in all three institutions.²⁸ This is in line with North et al.’s (2009, 2013) conceptualisation of a context where the dominant elites always seek to establish alliances, in order to create rents and to limit the ability of citizens to form organisations by conferring this right solely to members of the dominant sub-coalition. At the same time, the historical materials reveal an institutional context that is defined by the ‘blurring of sphere delimitations’. This is a concept that highlights the continuous interaction and collaboration between the political and economic spheres of elites that results in the creation of a setting permeated by constant association and congruity to such an extent that the demarcation of the two spheres become indistinct. There is no clear separation between political and economic agents, with economic agents occupying positions within the state structure and performing political roles.

²⁶ National Romanian Archives Files 3064/27/1971; 3064/33/1973; 3064/19/1974; 3064/52/1976; 3294/65/1982; 3294/234/1982; 3294/71/1987; 3294/329/1989; 3354/38/1980; 3354/26/1988.

²⁷ National Romanian Archives Files 3064/27/1971; 3064/112/1971; 3064/67/1972; 3064/33/1973; 3064/99/1973; 3064/19/1974; 3064/52/1976; 3294/65/1982; 3294/234/1982; 3294/71/1987; 3294/177/1989; 3294/329/1989; 3354/38/1980; 3354/26/1988.

²⁸ National Romanian Archives Files 3064/27/1971; 3064/112/1971; 3064/67/1972; 3064/33/1973; 3064/99/1973; 3064/19/1974; 3064/52/1976; 3294/65/1982; 3294/234/1982; 3294/71/1987; 3294/177/1989; 3294/329/1989; 3354/38/1980; 3354/26/1988.

The CC would communicate its decisions in relation to the structure and direction of the state to the State Planning Committee, which had the role to formulate the Five-Year Plan. The State Planning Committee would then engage in a process of collaboration with the appropriate ministries, in order to design the plan for each individual industry.²⁹ In the context of coal mining, the State Planning Committee closely interacted with the Ministry of Mining, Oil and Geology to determine the direction and structure of the coal mining sector. To ensure that the plan for the coal mining sector was met, the State Planning Committee and the Ministry of Mining, Oil and Geology would closely interact with the other ministries of supporting industries to secure things such as investment funds (Ministry of Finance), qualified personnel (Ministry of Labour), machinery and tools (Ministry of Automobile Construction, Ministry of Machinery-Tools, Electro-technics and Electronics, Ministry of Heavy Machinery Industry, Ministry of Technical Material Supply and Control of Fixed Assets Management), chemical products and alloys (Ministry of Chemical Industry, Ministry of Metallurgic Industry), infrastructure (Ministry of Transport and Telecommunications), the importation of machinery and licenses (Ministry of Exterior Commerce and International Economic Cooperation), and the distribution and use of coal in power plants (Ministry of Energy).³⁰

Archival records showed that the CC and the State Planning Committee communicated the central strategies and targets to each industrial branch.³¹ The State Planning Committee together with the Ministry of Mining, Oil and Geology would communicate and implement the coal mining plan at the sectoral-level through the general directors of coal mining Industrial Complexes.³² The Industrial Complexes subordinated to the Ministry of Mining, Oil and Geology acted as transmission belts, having performed the role of transforming institutional measures formulated at the central-level into practical individual business plans and targets that were then allocated to the different enterprises from the coal mining sector. Furthermore, the Industrial Complexes controlled and shaped the direction of the entire extractive and energy-oriented industrial branch by taking the strategies and targets formulated at the central-level and imposing and

²⁹ National Romanian Archives Files 3064/112/1971; 3064/67/1972; 3064/33/1973; 3064/99/1973; 3064/19/1974; 3064/52/1976; 3294/65/1982; 3294/177/1989; 3354/38/1980; 3354/26/1988.

³⁰ National Romanian Archives Files 3064/27/1971; 3064/33/1973; 3064/99/1973; 3064/19/1974; 3064/52/1976; 3294/65/1982; 3294/234/1982; 3294/71/1987; 3294/177/1989; 3294/329/1989.

³¹ National Romanian Archives Files 3064/27/1971; 3064/33/1973; 3064/19/1974; 3064/52/1976; 3294/65/1982; 3294/71/1987; 3294/329/1989.

³² National Romanian Archives Files 3294/65/1982; 3294/122/1982; 3294/234/1982; 3294/71/1987; 3294/177/1989; 3294/329/1989; 3354/13/1985.

monitoring their implementation an enterprise-level. Based on this, my argument is that the directors of coal mining Industrial Complexes were a sub-coalition of elites that co-existed with the dominant elites, but which were inferior in terms of positionality and power. These players were the industry representatives at a regional level, but also occupied senior level positions within the Communist Party.³³ This reinforces the concept of the ‘multiplicity of roles’ of the elites and, how elite power is highly concentrated.

At the enterprise-level, the elites formulated strategies to meet the targets received from ‘above’ and were under the constant supervision of the Industrial Complex who monitored whether the plan was met.³⁴ The directors of coal mining enterprises constituted their own unique elite sub-coalition that was different from the other sub-coalitions that I have introduced in terms of both power and positionality. More precisely, the power and positionality of enterprise-level coal mining elites was lower than that of elites at the national- and regional-level. In this sense, enterprise-level elites didn’t influence industrial policy or formulate strategies and production targets; instead, this category of social agents acted as ‘implementers’ of these institutional measures emanating from the regional and national institutional level.³⁵ It is however important to understand that this category of players clearly distinguishes itself from the labour class in the coal mining industry.

5.2.2 Role of Labour vis-à-vis Other Social Agents within the Institutional Structure of the Romanian Coal Mining Sector

In order to capture a rich picture of the dominant elites and to thickly describe the structure and composition of the dominant coalition (Geertz, 1973), I examine the identity and role of the political sphere vis-à-vis labour. If focusing on the position of the dominant elites from the political sphere in a vacuum and as insular social agents, I would fail to identify all the players with power to capture the state and influence the direction of the coal mining industry. Thus, by adopting this relational approach, I recognise the interplay between the different categories of dominant elites and the structural dynamism that defines the institutional context.

³³ National Romanian Archives Files 3294/65/1982; 3294/122/1982; 3294/234/1982; 3294/71/1987; 3294/177/1989; 3294/329/1989; 3354/13/1985.

³⁴ National Romanian Archives Files 3064/27/1971; 3064/112/1971; 3064/67/1972; 3064/33/1973; 3064/99/1973; 3064/19/1974; 3064/52/1976.

³⁵ National Romanian Archives Files 3064/27/1971; 3064/33/1973; 3064/52/1976; 3294/234/1982; 3294/71/1987; 3294/177/1989; 3354/26/1988.

By comparison to the labour classes from other industries, coal miners have always distinguished themselves as a unique sub-category of the Romanian proletariat (Velica and Shreter, 1993; Larionescu et al., 1999; Cernat, 2006; Boboc, 2009). Mitchell (2013) talks about how coal mining gives its working class and their unions a high degree of power and legitimacy within the institutional setting. This is due to the conditions surrounding the coal mining industry that give it a special status vis-à-vis other industries. First of all, the geographical positioning of coal mining is highly isolated and remote, with coal mining representing the primary industrial activity within the area. The geography of Romanian coal deposits is highly concentrated, with the composition of deposits being divided into lignite and hard coal (pit coal) (National Federation of Mining and Energy, 2010). Approximately 95 per cent of the lignite reserves are located within the Oltenița mining basin within a 250 square kilometre radius in three distinct counties – Gorj, Vâlcea and Mehedinți, while the remaining deposits present both low economic potential and low caloric content, thus resulting in the termination of any lignite mining activity outside the Oltenița exploration site (FRD Center, 2014). Over 90 per cent of hard coal reserves are located in the Jiu Valley basin within one county – Hunedoara (Euracoal, 2015). The Oltenița and Jiu Valley mining basins are mono-industrial zones situated in the south-western part of Romania with proximity to only small- and medium-sized towns, whose principal economic activity is coal mining. The Romanian coal context is thus typified by highly concentrated power. The concentration of reserves and the localised power make the Oltenița and Jiu Valley mining basins the sole foci of my study.

Second, the geographic remoteness of the Jiu Valley and the relatively small size of the towns that were established near the extraction sites lead to the formation of a very tightly-knit community. This collective culture based on strong bonds of solidarity of the mining community is further reinforced by the harsh conditions in which miners work. The process of coal extraction is dangerous – the probability of death or serious injury is very high (Boboc, 2009). On a day-to-day basis coal miners find themselves confined in dark and narrow spaces for extended periods of time. At the same time, coal is bulky and requires many men to move it around.

Third, because of this close association between coal miners, it becomes more difficult for management to control and direct coal miners and as a consequence, labour representatives assume considerable power and legitimacy, and in turn, are often a leading section of the working class. The central argument of Mitchell's book is that

coal mining communities led as the driver to mass democracy. I argue that democracy is only one example or instance of an institutional direction or gain. I want to extend Mitchell's argument and assert that coal miners have the capacity to act as drivers of institutional change, rather than restricting their collective power solely to influencing institutional change in the form of democratic transition. More specifically, miners have been able to use their structural and associational power to leverage a number of institutional gains, including that towards democracy (Wright, 2000; 2009; 2013). By taking this approach, I capture the varied and multi-faceted ways in which the institutional configuration of a state can be transformed, rather than limiting the effect that coal miners have on the state to a clear-cut institutional end.

The coal mining labour class is privileged in many countries (Mitchell, 2013); however, the extent of this privilege becomes more evident within the context of a Communist state (Cernat, 2006). Romanian coal miners had considerably higher salaries vis-à-vis workers from other industrial branches, and benefitted from entire range of perks and facilities which included: religious holiday bonuses, all-expense paid vacations, free access to hotels and inns owned by the mining Industrial Complexes, the provision of accommodation by the mining Complex, the provision of transportation to and from work, paid energy bills, food vouchers and coal quotas (Cernat, 2006; Larionescu et al., 1999). Furthermore, coal mining labour representatives had decision-making powers alongside the dominant elites from the political sphere within the ruling state apparatus. In fact, what I argue is that labour representatives were part of the elites, constituting a different sub-coalition or a different category from a diverging sphere of influence. This is in line with North et al.'s (2009, 2013) argument that each coalition is formed from multiple sub-coalitions, and that there is an extensive interactive network between these sub-coalitions and their members.

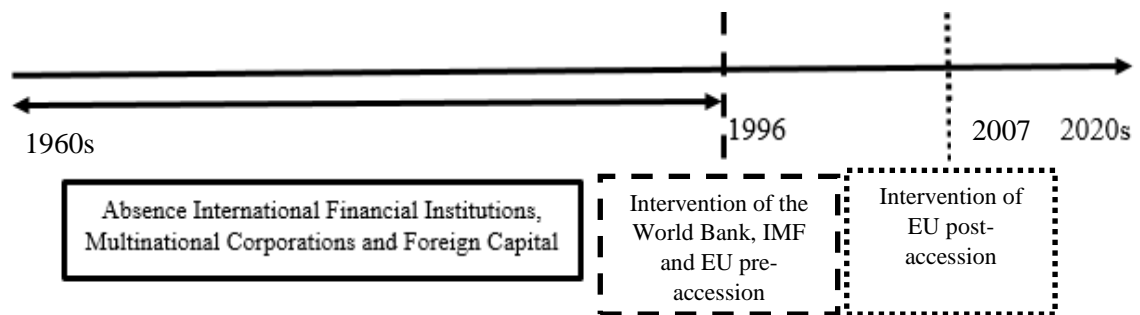
The institutional setting is fraught by tensions and changes (Bohle and Greskovits, 2013), with the configuration of the coal mining sector experiencing constant fluctuations in the structure and power dynamics of the dominant elites (North et al., 2009, 2013). The struggle for power and positionality is continuous – while some categories of elites succeed in retaining their position within the dominant coalition, others categories of elites such as labour are downgraded to a non-elite status. Coal mining labour representatives lost their elite status and the position of their sub-coalition lost its power and legitimacy within the ruling state apparatus. The interaction between dominant elites and labour will be explored in detail further in the chapter.

5.2.3 Role of Foreign Elites within the Institutional Structure of the Romanian Coal Mining Sector

The Romanian coal mining sector has always been defined by a high degree of inward orientation and a completely domestic ownership structure. Unlike the automobile manufacturing and business services industries, where MNCs and foreign capital have played a significant role in shaping and influencing the institutional configuration of the two industrial orders, coal mining is defined by the absence of such external forces. Presently, it is the only industry within the Romanian national variety that is 100 per cent owned and controlled by the state.

However, what can be observed during the 1960s and 1970s, at the height of the Romanian Socialist regime, is the consistent importation of technological resources and licenses (National Romanian Archives Files 3064/33/1973, 1973; 3064/52/1976). My argument is that this early interaction with international forces paved the way for future foreign collaboration, as well as led to the creation of a built-in mechanism that allowed the intervention of other types of international forces in the institutional configuration of the coal mining sector.

Figure 5.1 Intervention of International Institutions within the Configuration of Coal



In 1999, the World Bank and the IMF are the first international institutions to exert influence on the institutional context of the coal mining sector. Access and decision-making powers were negotiated and awarded by the dominant elites from the political sphere, who allowed the World Bank and the IMF to direct and have control over the process of restructuring of Romanian coal mining (Larionescu et al., 1999; Haney and Shkaratan, 2003; Hamlin and Cobarzan, 2006). The EU, the second international institution, started to exert influence on the institutional configuration of the Romanian coal mining sector during the pre-accession period (European Institute in Romania, 2004; Politico, 2016). Similarly, access and decision-making powers were negotiated

and awarded by the dominant elites from the political sphere, who allowed the EU to have control over the structure and direction of the sector. After Romania's accession to the EU in January 2007, the dominant elites together with the EU accelerated the process of restructuring and continued facilitating the process of termination of the industry (Euracoal, 2015, 2017; Visegrad Plus, 2015; EESC, 2016; Europa, 2018; Climate Analytics, 2019). The restructuring of the coal mining sector, which began in 1997 (Larionescu et al, 1999) and continues until the present day (Euracoal, 2017), is an instance of institutional change designed and implemented by the dominant elites in collaboration with other international institutions. The purpose of this section is to recognise the role of international institutions – such as the World Bank, IMF and EU – however, I do not analyse these any further since that is not the scope of my thesis.

5.3 Elite Relations and Dynamics of Change in the Romanian Coal Mining Sector (1960s - 2010s)

The dominant elites co-exist with other forces of change within the institutional context. As I have highlighted previously, the setting is defined by dynamic exchanges, in the form of collaborative arrangements and conflict, between different types of players and forces, rather than their isolated, non-relational existence. Thus, to capture the story of institutional change in the Romanian coal industry, I have identified two instances of interplay between the dominant elites and different forces of change that define the internal dynamics of the coal mining sector: 1) the interaction between dominant elites and industrial policy, and 2) the interaction between dominant elites and labour.

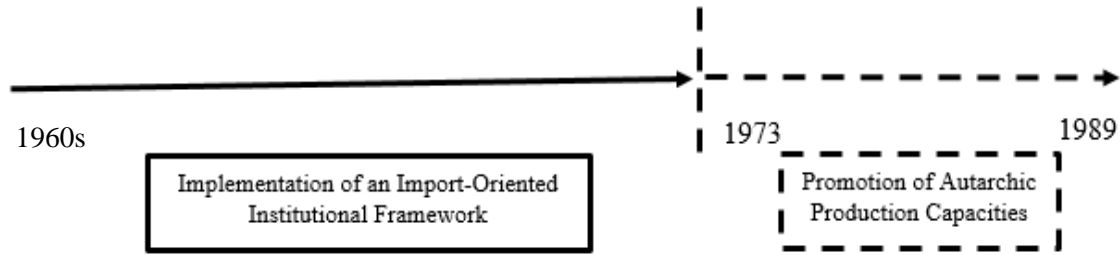
5.3.1 Elite Relations, Industrial Policy and Institutional Change in the Coal Mining Sector

I argue that industrial policy has to be seen as a force of change with which the dominant elites engage and interact within the institutional context of the coal mining industry – introducing new paradigms and then re-shifting them, and in the process exerting institutional change by re-shaping the internal dynamics of the industrial order.

The industrial order has the longest established historical timeframe in my study, followed by auto and business services. Coal mining has a long-established tradition within the Romanian national variety, pre-dating the influences of the Socialist Regime. From my research, it has emerged that the first coal mining activities took place in the Jiu Valley in 1840, with the opening of surface exploitation sites in Vulcan, Petroșani

and Petrila (Deleanu, 1955). The first and largest exploitation site in Petrila was established through a consortium between the Princes Maximilian and Egon Fürtenberg, Count Otto Chotek, and the Barons Luis and Moricz Haber (Realitatea de Hunedoara, 2018). In 1848, the mass exploitation of the Jiu Valley coal mining basin commenced (Velica and Shreter, 1993). In 1947, Romania is proclaimed the Socialist Republic of Romania and as part of the central planning Stalinist-inspired regime, where a strong emphasis is placed on heavy and energy-intensive industries, coal mining becomes a key national strategic industry (Crowther, 1988; Boboc, 2009). The expansion of coal production was pursued via two methods: 1) the additional development of existing production capacities, and 2) the opening of new exploitation sites (National Romanian Archives Files 3064/33/1973; 3064/52/1976).

Figure 5.2 Evolution of Institutional Frameworks Pursued throughout the Socialist Regime in Coal and other Romanian Industrial Branches



The main institutional players driving and controlling the expansion of coal production were the CC of the Romanian Communist Party, The State Planning Committee, the Ministry of Mining, Oil and Geology (Head Minister: Catargiu Irimie, Deputy Minister: Huidu Emil) and the general directors of the Jiu Valley and Banat mining Industrial Complexes. The macro programme of coal production maximisation consisted of a series of measures and tasks that were delegated to players of the ruling coalition. The descriptive material and relational implications about the players in charge of the expansion of production capacity are based on archival data.³⁶

³⁶ National Romanian Archives Files 3064/33/1973; 3064/52/1976; 3294/122/1982; 3294/234/1982; 3294/329/1989; 3354/13/1985.

Table 5.1 Coal Production in the Jiu Valley (1987-1991)

Year	Extracted Production in Tonnes
1987	11,071,970
1988	11,194,435
1989	10.722,048
1990	5,238,721
1991	4,854,061

Source: Velica and Shreter, 1993.

As I have established in Chapter 4, the Romanian industrial order was characterised by a high degree of dependency on imported resources and foreign collaboration during the 1960s and early 1970s. Thus, in the first decades of the Socialist regime, the coal mining sector was defined by a massive inflow of technological imports – this industrial policy was designed and implemented by the dominant elites. The historical materials that I have analysed indicate that from 1973 onwards the dominant elites have started to obstruct technological upgrading through technological imports. Instead, the dominant elites resorted to the implementation of an industrial policy based on the promotion of autarchic production capacities and the creation of an insular economic paradigm based on old technological reserves. The reduction of imports and the reliance on internal technological capacities resulted in an industry plagued by insufficient and inappropriate technology and materials, and as such Romanian coal mining embarked on a process of ossification that started in the Socialist period and continued after 1990. Table 5.1 exhibits a significant drop in production that occurred within the mono-industrial area of Jiu Valley. The decrease in production is a major historical moment that marks the beginning of the process of industry death or termination.

The Structural Problems of Socialist Planning in the Romanian Coal Mining Sector (1960s-1989)

My investigation of the archival materials has revealed that throughout the Socialist regime the coal mining sector was defined by the inability to realise the planned production levels due to outdated and insufficient machinery and tools, shortages and a lack of high-quality replacement parts, an underdeveloped pool of specialised engineers, and inferior mining process upgrading and innovations. I shall elaborate on my findings in detail below.

In his book *Socialist Planning*, Michael Ellman argues that the Socialist economic mechanism was an economic system, whose orientation was directed towards the rapid

quantitative increase of production through heavy industrialisation, but which did not address the problems emerging from the intensive regime of economic growth (1979). Furthermore, Ellman claims that the fundamental problem of Socialist regimes constitutes the ad hoc character of planning and the creation of 'slack' plans. Ellman (1978, 250) defines a 'slack' plan "as a plan which provides for less output than is possible, or more inputs than are necessary". Ellman (1979) attributes the existence of 'slack' plans within Socialist regimes to the deficiencies in the coordination of the various sectors of the economy; the difficulties in the transmission of information within the national system; the problems of coordination between future investments and current economic plans; the performance indicators measured in volume production, leading to waste and lack of care with costs and product quality; and excess demand for consumer goods.

According to the U.S. Library of Congress (2017a, 2017b), the forecasted target output of 86 million tonnes annually for the period 1982-1985 proved to be unrealistic and as a result, was revised to 64 million tonnes per year; however, by 1985 actual realised output stood at only 44 million tonnes in total.³⁷ During my archival research, I have found evidence regarding the inability of an extensive number of mines and exploitation sites to meet the production plan. An example of an exploitation site that enters this category is the Horăști Mine. "In 1975 due to difficulties encountered in panels 3 and 4 the recalculated coal production approximated 77.6 per cent of the total mine capacity, whereas the productivity of the exploitation process equalled only 74 per cent of the planned level (National Romanian Archives File 3064/52/1976, 115). The same coal mining technical report provided evidence that there was a failure to meet planned output at the Sotânga Mine, where pre-established levels were set at 700 thousand tonnes per annum and only 680 thousand tonnes were achieved (National Romanian Archives File 3064/52/1976, 92). A protocol of the meeting of the Standing Bureau of the Executive Political Committee indicates that the 'problem of unrealised production' had been a constant reality present throughout the entire 1970s and that continuous efforts were made to enlarge the exploitable reserves and to expand the work front in order to meet the Five-Year Plan (National Romanian Archives File 3354/38/1980).

The principal aspects highlighted by the general directors of the mining complexes include the insufficient and inappropriate technological capacities of production, and the

³⁷ In 1988, output totalled 58.8 million tonnes.

low usage indices on specific machinery and equipment. In the transcript of a working session with the senior officials of the coal mining industry (National Romanian Archives File 3294/65/1982), the Minister of Geology (Ion Lăzărescu) stated that the greatest two impediments that contribute to the unfulfilment of planned production are the inappropriate functioning of technology and machinery, and the lack of supervision over technological capacities. In the same working session, the General Director of the Rovinari Mining Complex (Emil Huidu) highlighted the fact that machinery and equipment are severely outdated, and that the wear and tear indices are very high. The reason behind this is reinforced by the Director of the Rovinari Coal Mining Enterprise (Bercea Nicolae), who emphasizes the lack of technological upgrade, the shortage of replacement parts and the inappropriate servicing. Moreover, the General Director (Ștefan Marin) of the Motru Mining Complex further underlined the existence of outdated technology, stating that some activities are carried out manually and that there is an urgent need to mechanise the entire process. From the same working session, it also emerged that technology wasn't the only problem – a shortage of specialised labour characterised the mining complex.

These issues related to organisation and technology optimisation were corroborated with: 1) the points raised in a note of explanation published in 1982 on the development of lignite and brown coal production during the period 1982-1990 (National Romanian Archives File 3294/234/1982), and 2) the emerging themes in the minutes of a working session in 1989 with the key players from the Ministry of Mining, Ministry of Oil and the Central Department of Geology (National Romanian Archives File 3294/177/1989).

In an older technical report compiled by the Ministry of Mining, Oil and Geology (National Romanian Archives File 3064/33/1973), the unfulfilment of the production plan is attributed to the following: the failure to ensure the timely delivery of replacement parts to the central equipment and machinery (excavators, dumping installations and belt conveyors); land slides and flooding in certain quarries; organisational shortcomings in relation to technical activities, supply system, inspections, repairs, servicing and maintenance; and, difficult hydrological and geotechnical conditions within specific quarries/pits.

Futhermore, in the protocol of a meeting of the Political Executive Committee in 1988, Nicolae Ceaușescu provided an assessment of the status of the coal extraction industry, highlighting the principal shortcomings of the industrial order: “[...] we must prioritise

and secure the timely delivery of materials and parts that are incorporated into finished products; [...] the recovery and use of materials are not firmly enforced, we must increase this recovery; [...] we must attempt to stay within the material consumption levels in all enterprises; [...] we need to improve quality and raise the technical level of products; [...] and we need to implement measures to increase labour productivity based on the good organisation of the business activity, production process, mechanisation, automation, robotisation [...]" (National Romanian Archives File 3354/26/1988).

Despite the fact that the industry became unsustainable in the 1970s (Cernat, 2006), coal production continued to be expanded according to the Socialist regime principle "For our country, as much coal as feasible!" (Partidul Comunist Român, 1975, 16). Because of intensive exploitation, the competitiveness of the principal coal basins and the quality of production declined further (Shafir, 1985); hence, from the mid-1980s onwards the industry embarked on a path of decline.

Industrial Policy in the Romanian Coal Mining Sector during the Socialist Era: Dependency on Technological Imports and Foreign Collaboration

I will now move on to discussing the type of industrial policy pursued in the first part of the Socialist regime and its effects on the institutional configuration of the industry – more specifically, the creation of an import-oriented institutional framework. Based on my analysis of the archival materials, I argue that in order to compensate for these inappropriate technological capabilities, the dominant elites from the political sphere facilitated the creation of an import-oriented institutional framework, which entailed a high dependency on technological imports and licenses.

Archival records indicate a high dependency on technological imports, licenses and foreign collaboration that was present across the entire mining sector during the 1960s and early 1970s (National Romanian Archives Files 3064/27/1971; 3064/112/1971; 1971; 3064/67/1972). An example to illustrate this dependency on imports constitutes the Rovinari Mine (National Romanian Archives File 3064/33/1973), where 95 per cent of repairs, maintenance and spare parts were secured from imports. The State Planning Committee signed a contract with the foreign company Krupp to supply excavation and dumping machinery. Furthermore, to ensure the import of replacement parts for electrical tools, machinery automation and core components, necessary for processes such as the 'cold' vulcanisation of belts and maintenance bands with metal insertions,

that cannot be internally produced, a group of specialists carried out negotiations with foreign companies from the German Federal Republic – this process was also controlled and managed by the State Planning Committee. Under the direction of the Ministry of Labour, the Ministry of Mining and the State Planning Committee, the re-qualification of ten engineers from the Rovinari Mine that were sent abroad was carried out, along with the internal re-qualification of numerous engineers and sub-engineers by a commission of foreign specialists that were hired to carry on-site training. Another example which highlights the dependency of coal mining on foreign technological resources is the Jilț-Sud Mine. A technical report produced in 1976 by the senior officials of the mining Industrial Complexes highlighted the fact that “[...] the share of imported components, parts and materials in total equipment is 39.12 per cent, [...] excavating and pile-driving machines are being developed in cooperation with the foreign company Krupp [...], some supplies and equipment are needed that are not manufactured in the country, and there are also expenses for the import of technical documentation and materials, as well as technical assistance, training of employees” (National Romanian Archives File 3064/52/1976, 164-165).

The emerging narrative from the archival materials reinforces the dependency of Romanian coal mining on technological imports, licenses and foreign collaboration. The process of technological upgrading was highly dependent on the perpetuation of this open, import-dependent economic paradigm that facilitated the creation of production capacities based on new, foreign technological resources. Furthermore, the archival materials shed light on who are the drivers behind the implementation of this import-oriented institutional framework. The drivers behind this institutional framework are the dominant elites – the CC, the State Planning Committee, the Ministry of Mining, and other ministries supporting and collaborating with the Ministry of Mining. The dominant elites were highly aware of the deficient indigenous technological base and as a result, they sought to mitigate this competitive disadvantage. In addition, it was common knowledge among the members of the CC and State Planning Committee that in order for the industry to achieve technological upgrade and develop up-to-date internal production capacities, it needed to assimilate foreign technological resources and integrate them into the configuration of the industrial order. Through the implementation of this industrial policy, I argue that the dominant elites ushered in a new institutional paradigm based on the interaction with international forces. By altering the internal dynamics of the coal mining sector in this way, the dominant elites

exerted institutional change on the industrial order. Furthermore, I argue that these early foreign exchanges and collaborative arrangements that the dominant elites from the political sphere facilitated became the bedrock of institutional continuity, paving the way for future interaction with international forces within the institutional configuration of the coal mining sector.

Industrial Policy in the Romanian Coal Mining Sector during the Socialist Era: Import Substitution Industrialisation and the Creation of an Autarchic System

I shall now examine the changes in industrial policy that occurred during the Socialist period, more precisely how the import-oriented institutional framework was dismantled and replaced by an inward-oriented system based on autarchy and internal production capacities. What emerged from my archival investigation is that starting with 1973, the dominant elites re-shifted the orientation of the institutional configuration of the coal mining sector by reducing imports and minimising the dependency on technological imports. The decision to cut foreign technological resources was driven by 1) the national industrialisation programme, which promoted the development of internal capacities, and 2) the regime's external debt payment plan, which focused on the elimination of foreign imports and the boosting of exports. Extensive evidence regarding this shift in industrial policy was found in a variety of technical reports in the Archives. One such report was produced by the Ministry of Exterior Commerce and International Economic Cooperation and stated that tight control should be exerted over the import of tools and machinery, and that transactions should be coordinated by the Ministry of Machinery-Tools and Electro-technics (National Romanian Archives File 3064/99/1973). In a different document issued by the CC and State Planning Committee, it was specified that all ministries, central-, regional- and city-level apparatus, Industrial Complexes and enterprises are required to decrease the level of imported materials, machinery, components, installations, licenses and trainings in order to meet the targets of the Five Year Plan and the new import levels stipulated within the assimilation programme (National Romanian Archives File 3064/19/1974). Furthermore, the document emphasized that the development of indigenous production capacities should have priority and that the elimination of imported technologies would allow the industrial branches to pool and focus their resources on the expansion and diversification of internal production. Based on the investigation of a series of technical reports of individual mines, before the reduction of technological resources and the assimilation programme was begun, mining enterprises imported approximately 50 to

60 per cent of their technological necessities from foreign suppliers from either other satellites of the Soviet Bloc or from Western capitalist economies. By 1976, the proportion of imported equipment, machinery and materials had been reduced significantly, ranging between 10.78 to 39.12 per cent per mining enterprise (National Romanian Archives File 3064/52/1976).

The rationale behind this strategy was that technological absorption and integration would take place together with the development of indigenous capacities, hence eliminating the need for imports. “[...] The Ministry of Exterior Commerce and International Economic Cooperation is entrusted with the task of continuously reducing the proportion of imports [...] a priority will be given to the reduction of imports through the intensification of assimilation and the internal production of materials and components that constituted a significant proportion of imports [...] special attention will be awarded to allow imports that complement products that haven’t been sufficiently integrated internally” (National Romanian Archives File 3064/99/1973, 1973, 75). The process of technological import reduction accelerated throughout the 1980s (National Romanian Archives Files 3294/65/1982; 3294/71/1987; 3294/177/1989; 3294/329/1989). This information was corroborated by a key elite player who was Minister of Machinery Construction (1965-1985), Deputy Prime Minister (1985) and Minister of Energy (1986-1987) who stated that (interview code A_10):

“The reduction of imports was problematic! As we reduced imports, we had to make massive effort to assimilate internally for which we did not have the necessary funds, because all the money went to pay off the external debt. And we needed to import specific documentation, certain equipment; we could not do everything on our own.”

My analysis of the archival materials revealed that the decision to reduce imports and to minimise the dependency on foreign technological resources was made at the most central level – the CC (National Romanian Archives Files 3064/99/1973; 3064/19/1974; 3064/52/1976). The CC conveyed this institutional measure to the State Planning Committee, which had the role to implement it in conjunction with the Ministry of Mining, Oil and Geology and the other supporting ministries (National Romanian Archives Files 3064/99/1973; 3064/19/1974; 3064/52/1976). Hence, my argument is that the dominant elites from the political sphere were the drivers behind this shift in

industrial policy and re-orientation of the institutional configuration of the coal mining sector. By altering the framework of the industrial order from an import-oriented model to an inward-oriented one, the dominant elites exerted institutional change. However, it has emerged from my research that the decision to drastically reduce technological resources was a contentious issue among some of the dominant elite players and that some members of the coalition tried to oppose the implementation of this institutional framework (interview code A_6, A_10, S_4). The reason behind this push against the elimination of imports was the realisation of some political representatives of the Ministry of Mining, Oil and Geology (later Ministry of Mining) and the ministries collaborating with the coal sector, as well as the directors of the Mining Complexes that the Romanian political economy did not have the necessary indigenous production capacities to sustain and develop the coal industry on its own. According to the former Minister of Machinery Construction (1965-1985), who was a key representative of the CC during the Socialist period (interview code A_10):

“The decision to reduce imports was made by the Party. They said – “from tomorrow onwards we will only allocate you this amount of money!”. It was the State Planning Committee and the CC. Our people [representatives of the Ministry of Mining, Oil and Geology] protested that it would be impossible to reduce imports on a year-by-year basis to such an extent, it would be impossible to create this amount of new internal capacities. We had lots of confrontations.”

By examining the historical materials of the State Planning Committee, what emerged was that only a partial process of integration and technological absorption took place – this was due to the fact that the process of import elimination was undertaken too rapidly and the Romanian industry had neither the time, nor the funds, nor the expertise to develop such an extensive array of supporting industries to complement the coal mining sector (National Romanian Archives Files 3064/99/1973; 3064/19/1974; 3064/52/1976; 3294/65/1982). Instead, the abrupt elimination of imports resulted in the unavailability of high-quality components and equipment necessary for the maintenance and servicing of exploitation equipment, and the absence of the latest process innovations, techniques and operational expertise (interview code S_4, A_10). The former Minister of Machinery Construction, Deputy Prime Minister and Minister of Energy reinforced this idea (interview code A_10):

“You should know that quality problems and the drop in standards arose when imports were reduced. It was a mistake that we tried paying the external debt. The assimilation was forced and so, quality problems arose.”

To compensate for these insufficiencies the coal mining sector had to rely on sub-standard components and equipment that were internally produced, often with great delays and at a cost that exceeded the sales price (National Romanian Archives Files 3064/33/1973; 3064/19/1974; 3294/65/1982; 3294/71/1987). According to a technical report uncovered during my archival investigation, the senior management of the Rovinari Mining Complex highlighted the fact that the lack of imports led to an inability to carry out high-quality repairs, which in turn resulted in the frequent decommissioning of machinery (National Romanian Archives File 3064/33/1973). In light of these consequences, the argument that I am advancing is that by eliminating technological imports and foreign collaboration, the dominant elites obstructed technological upgrading and diversification. Instead, the institutional context shaped by the dominant elites is one characterised by autarchic production capacities and the utilisation of old technological reserves. The investigation of archival materials reveals that this insular approach has had a negative impact on the structure of the industry.

Economic Overview of the Romanian Coal Mining Sector in the Post-Socialist Era (1990-1999)

I will focus on providing the economic overview of the coal mining sector. According to a study carried out by the World Bank (1998), the Romanian coal mining sector was plagued by an acute financial crisis throughout the 1990s. In May 1998, the National Enterprise of Pit Coal and the National Enterprise of Lignite were amongst the largest indebted state-owned companies, having an accumulated debt of 953.8 billion Romanian Lei and 412.4 billion Romanian Lei respectively (World Bank, 1998). When undertaking my analysis of the archival materials during the timeframe 1970-1989, the following characteristics arose regarding the economic specificities of the sector: poor sector management, low level of productivity of operations, low caloric content of extracted coal reserves, inauspicious geological conditions, production costs exceeding the sales price of coal, obsolete technology and shortage of materials, inefficient investments, excessive labour, and extreme levels of accounts payable.³⁸

³⁸ National Romanian Archives Files 3064/33/1973; 3064/73/1975; 3064/52/1976; 3294/163/1981; 3294/7/1982; 3294/65/1982; 3294/234/1982; 3294/71/1987; 3294/177/1989.

In spite of these financial issues, coal mining was unique vis-à-vis other industries in terms of the level of state subsidies (Larionescu et al., 1999). For example, in the first half of 1997 total state subsidies equalled 187.2 billion Romanian Lei, out of which a proportion of 55.8 per cent were directed towards coal mining. According to the World Bank (1998), instead of being allocated for the re-equipment and modernisation of exploitation sites, these subsidies were utilised to increase the salaries and benefits awarded to the coal mining labouring class. This aspect emerged throughout my interviews as well (interview code S_3, S_4). According to my interview with a historian specialised in the Romanian Communist regime and the historical legacies of Socialist economic structures (interview S_4):

“The money from the aid package was not used in the way it was supposed to. You see, the intention of these funds was to orchestrate the industrial resuscitation of the industry. Instead of this, the money was used to award bonuses and pay increases to the leaders and workers of coal mining. And you must understand, the entire industry was favoured. You know, we like to claim in the media that it was only the leadership, yes the leadership controlled, but the labour in coal mining by comparison to the average Romanian worker was doing much better and benefitted from perks that the average citizen didn't [...] The other part of the money was pocketed by the leaders of the regime. From the top we had the representatives of the ministry [Ministry of Energy], then the leaders of the National Enterprises and finally the leaders of individual enterprises [coal mines]. The money was divided starting from the top and everyone got their share. As you know, this money was used to start many of the domestic, privately-owned enterprises that emerged during the 1990s that had and still have close relations with the state. They are favoured by the state, they have a lot of partnerships with the state, they usually always win the so-called public bidding contracts that the state offers, and so on. ”

As the quotation presented above highlights, specific elite sub-coalitions appropriated the state subsidies and utilised them for their own personal interests. These sub-coalitions included high-level political representatives at a ministry-level, senior-level members of the Coal Régie Autonome, coal mine directors and trade union leaders (interview S_4).

It soon became clear, however, that such levels of subsidisation were unsustainable in the face of the other demands on the shrinking national budgets (Cernat, 2006). From this recognition followed the decision to embark in 1997 upon the restructuring of the coal sector (Haney and Shkaratan, 2003). In order to reduce the burden of subsidies on the budget, the closure of loss-making mines and the downsizing of the sector's labour force began.

What has arisen from my interview with a historian specialised in the Communist regime is that the process of restructuring and the measures designed to transform the coal mining sector were severely delayed by various sub-coalitions of elites (interview code S_4). These were directors of coal mines and labour representatives who had a vested interest in making sure that the position of coal mining as an industrial order didn't lose its significance within the Romanian institutional configuration, as this would lead to their loss of power and positionality within the ruling structure.

In the following section, I will discuss the process of restructuring of the coal sector that began in 1997.

Role and Effect of Industrial Policies on the Restructuring of the Romanian Coal Mining Sector

The process of restructuring was pursued by the domestic elites through the implementation of two emergency ordinances: Ordinance no. 9 from 14th of April 1997 and Ordinance no. 22 from 19th of August 1997 (Legex, 2017a; Legex, 2017b).

The two emergency ordinances were designed and implemented by the dominant elites from the political sphere, or the acting government, in conjunction with other elite sub-coalitions, which included the trade unions and the leadership of the Coal Régie Autonome. Despite the fact that trade unions and the Coal Régie Autonome officially declared that they were not included in the consultations and decision-making process, Larionescu et al. (1999) argue that the creation of these ordinances was a negotiated process between all the different categories of elites from: ministry-level, National Enterprise-level-, and coal mine-level, including the leaders of organised labour. My assumption is that to avoid any form of backlash from coal miners, the trade union leaders and the Coal Régie Autonome did not want to appear involved in the process of restructuring, as they were in fact the representatives of labour and the sector respectively.

Ordinance no. 9 implemented a series of welfare protection measures for those whose employment contract would be terminated because of collective dismissal through the implementation of restructuring, privatisation and liquidation programmes (Larionescu et al., 1999). These measures included the payment of a monthly non-taxable compensation package equal to the net average wage, with the number of payments being determined by tenure. Based on the criterion of tenure, three types of packages were offered: 1) a total of six net average monthly wages to employees with a tenure of below five years, 2) a total of nine net average monthly wages to employees with a tenure of between 5 to 15 years, and 3) a total of twelve net average monthly wages to employees with a tenure of over 15 years (Legex, 2017a). An additional payment worth three net average wages for those employees residing in a mono-industrial region, where unemployment exceeded 12 per cent, or for those in a highly specialised profession (Portal Legislativ, 2017a).

Ordinance no. 22 implemented a series of welfare protection measures for those employed in the mining industry and in geological exploration activities (Larionescu et al., 1999). By comparison to Ordinance no. 9, Ordinance no. 22 introduced the possibility of voluntary dismissal, with the social welfare protection measures entitling workers to ask for 'dismissal on demand' in exchange for a one-off compensation package determined by tenure (Legex, 2017b). Three types of packages were offered: 1) a compensation package worth 12 net average monthly wages to employees with a tenure of below five years, 2) a compensation package worth 15 net average monthly wages to employees with a tenure of between 5 and 15 years, and 3) a compensation package worth 20 net average monthly wages to employees with a tenure of over 15 years. Legislation stipulated that under Ordinance no. 22 those who opted for voluntary dismissal and received compensation were not eligible to be re-hired in the mining sector for at least a year (Portal Legislativ, 2017b).

Blinded by the compensation packages offered through Ordinance no.22, which at the time represented a small fortune for the Romanian working class citizen situated in a region such as that as Jiu Valley (Cernat, 2006), a massive number of coal miners opted to voluntarily terminate their employment contract and exit the mining sector, thus leading to an extensive, unexpected exodus of the workforce. According to the Secretary of State of the Ministry of Industry and Commerce, it was expected that Ordinance no. 22 would lead to the dismissal of approximately 15 per cent of the coal mining labour force. In reality, in September 1997, the first month the ordinance was

implemented, 14,870 miners from the National Enterprise of Lignite and 14,825 miners from the National Enterprise of Pit Coal opted for voluntary dismissal (Larionescu et al., 1999). Between October and December 1997, an additional 33,000 coal miners were dismissed through Ordinance no. 9 and Ordinance no. 22. Over a period of four months, the application of the two emergency ordinances resulted in the decrease of the total coal mining labour force of 173,000 by 36 per cent (National Federation of Mining and Energy, 2010).

In 2012, the Romanian coal mining sector entered a major process of re-organisation (Visegrad Plus, 2015). Under the recommendation and instruction of the EU, the government initiated the vertical integration of the industrial order (Euracoal, 2015). On the lignite side, the dominant elites from the political sphere orchestrated the merger of mines and exploitation sites with the respective lignite-based power plants into the Oltenița Energy Complex – the largest producer of coal-based energy, which is responsible for 99 per cent of the total lignite production. According to the National Agency for Mineral Resources, there are a total of 197 of lignite perimeters in Romania; however, after the process of restructuring exploitative activities take place at only 12 of these sites that represent opencast pits, with the activity in the remaining 185 having been terminated (Euracoal, 2017). The reserves supply the Turceni and Rovinari power plants with installed capacities of 1,650MW and respectively 1,320MW, but also Craiova and Ișalnița, which are located further south (Transelectrica, 2017).

By comparison to lignite, the process of re-organisation of pit coal production proved to be more problematic. The National Agency for Mineral Resources data shows the existence of 54 hard coal perimeters in Romania distributed between the Petroșani Mining Basin (34) and the Lupac-Anina Mining Basin (20) (Euracoal, 2015). In 2011, the National Hard Coal Company had only a total of seven active underground exploitation sites: Lonea, Livezeni, Petrila, Vulcan, Uricani, Lupeni and Paroșeni. As of September 2012, the dominant elites from the political sphere merged these sites with the hard coal-based power plants forming the Hunedoara Energy Complex. The Hunedoara Energy Complex has two distinct operating units: National Society for Mine Closure Jiu Valley and the Mining Division. The National Society for Mine Closure Jiu Valley has been tasked to oversee the closure of three economically unsustainable mines by 2018 – Uricani, Paroșeni, and Petrila,³⁹ while the Mining Division of Hunedoara Energy

³⁹ Activity was terminated at Petrila Mine in 2015, with Paroșeni and Uricani following in 2017 (Euracoal, 2017).

Complex has been tasked to continue the operation of the remaining four pit coal mines – Lonea, Livezeni, Vulcani, and Lupeni, which are regarded as financially viable in terms of profitability and return of investment. The hard coal reserves supply the Paroşeni and Mintia power plants with installed capacities of 150MW and respectively 1,075MW (Transelectrica, 2017).

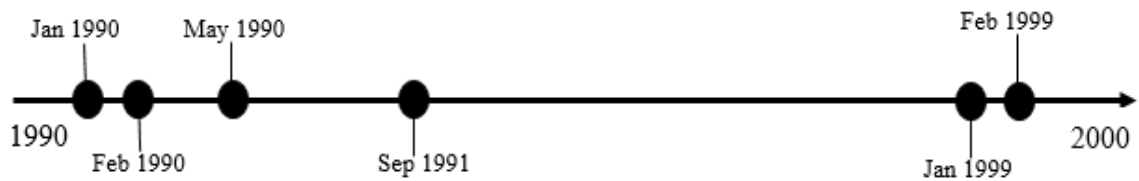
Hence, my argument is that via the implementation of a set of industrial policies the dominant elites from the political sphere drove the massive restructuring of the Romanian coal mining sector, ultimately orchestrating the termination of this industrial order.

5.3.2 Elite Relations, Labour and Institutional Change in the Coal Mining Sector

The variegated neoliberalism approach overlooks the way in which conflict and tensions between political and social agents can act as driving elements for development and institutional change (Streeck, 2007; Bohle and Greskovits, 2013). In order to accurately capture the internal dynamics of the institutional configuration and the various typologies of exchanges and interactions between different categories of agents, I conceptualise an institutional setting permeated by tensions, conflict, collaboration and alliances between different levels of agents with diverging positionality, elite and non-elite, that is in a continuous process of change and re-combination. To fully comprehend the fluctuations within the internal dynamics of the coal mining sector, I analyse the changing alliances and affiliation between the dominant elites and other social actors – in this case the coal mining labour.

My assumption is that the coal mining labour class has to be seen as a force of change with which the dominant elites engage and interact within the institutional context of the coal mining industry. Using the *Mineriadas* or the miners' revolts in Romania during the 1990s, I shall highlight that coal miners had the capacity to act as drivers of institutional change at key turning points throughout history. In fact, using the *Mineriadas* I will show that labour representatives were part of the dominant elites, constituting a different sub-coalition or a different category of elites from a diverging sphere of influence.

Figure 5.3 Timeframe of the Mineriadas (1990-1999)



Between 1990 and 1999 there were a total of six Mineriadas. My analysis reveals that the early Mineriadas from 1990-1991 vis-à-vis the late Mineriadas from 1999 had diverging purposes and impacted the institutional context differently. I will analyse the two diverging timeframes, focusing on the role and positionality of the dominant elites and labour representatives, and how the internal dynamics between the two categories of players fluctuated from the beginning of the 1990s to the end of the 1990s.

The Structural Particularities and Institutional Implications of the First Instances of Labour Unrest in the Romanian Coal Mining Sector (January 1990-September 1991)

Between January 1990 and September 1991 there were a total of four Mineriadas. My argument is that within the institutional context of this period the dominant elites managed to utilise coal miners as an instrument of manoeuvring to implement various measures and forms of institutional change. In the context of the early Mineriadas, the institutional change consisted of the suppressing of the political opposition – either the historical parties⁴⁰ or the newly emerging political faction that was an association of newer and younger politicians that had more liberal-oriented views of the state,⁴¹ and in the process ensuring the continuity of the dominant elites from the Socialist regime. After the fall of the Socialist regime, rather than having a lustration campaign through which the dominant elites from the political sphere – remnants of the Socialist regime – were ousted from the new capitalist order and held accountable for their actions as players in the Socialist political arena (Gallina, 2008; Martin, 2013), what can be seen is that the newly elected temporary government was formed from players from the former regime – the National Salvation Front (Cernat, 2006; interview code S_4). This substantiates my argument regarding the fact that the institutional configuration is defined by the continuity of the dominant elites, despite the fact that there was a regime transition.

⁴⁰ Evenimentul Zilei, 2010a, 2010b; Iliescu aduce minerii în Bucureşti în frunte cu Miron Cozma! Mineriada 28-29 ianuarie 1990!, 2014; Mineriada Piaţa Universităţii 13-15 iunie 1990, 2014; Prima mineriadă: 28-29 ianuarie 1990, 2014; Comunismul în România, 2015; Mediafax, 2017.

⁴¹ Evenimentul Zilei, 2011; DACIAN77RO, 2015; Mudavaflex, 2017.

By awarding coal miners this type of legitimacy within the institutional context, the dominant elites increased the power and positionality of an already privileged labour class and enhanced the influence of organised labour representatives who already had an elite status. It is thus only via the interaction and collaboration between the dominant elites and labour that the suppression of the political opposition was achieved. The agenda of the political opposition entailed: 1) the dissolution of the newly elected government, 2) the withdrawal of Ion Iliescu – the leader of the National Salvation Front, and 3) the elimination of the Security, the secret police agency during the Socialist regime, which was claimed to have transitioned into the newly established regime and to have infiltrated all major institutions and economic sectors (Evenimentul zilei, 2010a). The transitioning of the Security reinforces the recurring concept of the continuity of the dominant elites and their unencumbered transition from the state Socialism to capitalism.

I argue that a collaboration between the political and the labour sphere was necessary, in order to ensure that the political opposition and their supporters didn't gain legitimacy and in the process, destabilise the existing dominant sub-coalition (interview code S_4). President Iliescu made a national announcement calling for "labour solidarity", calling on all organised labour to march on Bucharest and defend the country against the 'dangerous, extremist intellectuals' (Cernat, 2006). The entire political opposition and anti-National Salvation Front protesters were labelled as "fascist elements" and "organised groups", who were undermining the newly installed democratic regime (Iliescu aduce minerii în București în frunte cu Miron Cozma! Mineriada 28-29 ianuarie 1990!, 2014). This substantiates my claim regarding the fact that the coal mining labour class has to be seen as a force of change in itself with which the dominant elites engage and in the process, exert changes within the institutional context of the coal mining industry.

Led by their key labour representative, Miron Cozma, coal miners were directed by the Romanian Intelligence Service to the key locations where protesters were situated: University Square, in front of the National Theater, inside the Faculty of Geology, inside the Students' League headquarters, inside the Faculty of Linguistics, inside the Faculty of Mathematics, inside the Institute of Architecture, and at the National Peasantry Christian and Democratic Party and National Liberal Party headquarters (14 iunie 1990 – Venirea minerilor la București, 2011). All of these institutions were destroyed and the Romanian Television was taken over by these 'paramilitary' groups

that were collaborating with the police and the Romanian Secret Service (interview code S_4). The successful instrumentation of this state capture was achieved through the collaborative arrangement between the dominant elites – senior political representatives of the former regime – and the coal mining labour class and its representatives (interview code S_4). There was an allowance made by key officials of the state (National Salvation Front) for miners to act as control and security mechanisms, substituting for law and order, which led to the emergence of an enlarged dominant elite sub-coalition – more specifically, the leadership of organised labour was positioned alongside the dominant elites from political sphere within the power structure of the Romanian political economy.

Furthermore, the early 1990s were characterised by a lack of free press (Cernat, 2006). Instead, what can be seen is the unilateral reporting of news by the Romanian Television which was controlled by the National Salvation Front. According to the historian specialised in the Romanian Communist regime, written press in the form of newspapers and magazines was also controlled by the dominant sub-coalition, with the only independent publication Free Romania being banned (interview code S_4). The control of the media is another way through which the dominant elites managed to capture and retain control over the state.

The inclusion of labour within the elite coalition becomes even more obvious when we analyse how coal miners collaborated and aligned themselves with various social agents – police forces, army, secret service agency, organised labour from other industries, under the instruction of the dominant elites. The enhanced powers and positionality awarded to coal miners is also evident from the degree of protection given to the labour class by the security forces. From the moment when they arrived in Bucharest, coal miners were escorted to where the historical party supporters and political opposition was gathered. Throughout each mass demonstration, coal miners and security forces ‘worked together’ to stifle the political opposition. And when the revolt was finally over, the security forces escorted the coal miners to the train station to make sure they returned safely to the Jiu Valley. The fact that there was no investigation or prosecution of the coal miners who destroyed the many institutions and historical landmarks, and who engaged in the violent attacks is another indicator of the superior positionality of the labour class within the institutional framework (Comunismul în România, 2015).

The first three Mineriadas represent the association between the dominant elites and the labour class against players from outside the dominant sub-coalition with completely opposing views and political agendas. The fourth Mineriada is however about the arising internal tensions and conflict between the dominant elites, the divergence of the dominant sub-coalition into two different factions with distinct ideologies and ultimately, the alliance of one faction with the coal mining labour class against the other faction. Due to this internal friction within the dominant sub-coalition, which threatened the stability and rent extraction opportunities of players, it became necessary that one of the competing factions win the conflict. Officially, the fourth Mineriada had no political motivation behind it. In reality, there were tensions within the dominant sub-coalition between two key players of the political sphere – the President (Ion Iliescu) and the Prime Minister (Petre Roman) (Cernat, 2006). What was initially a homogenous and congruent elite grouping, soon bifurcated into two factions with increasingly differentiated political views and ideologies that were struggling to retain power and to capture the state. According to the historian specialised in the Romanian Communist (interview code S_4), the ‘Iliescu’ faction consisted of ‘old’ players from the former regime – Ceaușescu’s former inner circle, with very traditional Socialist and patrimonial views of the state; whereas the ‘Roman’ faction was an association of newer and younger politicians that had more liberal-oriented views of the state.

The fourth Mineriada was a carefully designed and implemented stratagem, a tactical move through which the ‘Iliescu’ faction aligned itself with the coal miners against the ‘Roman’ faction, in order to promote institutional measures that closely resembled a patrimonial variety of capitalism (King, 2007). To capture the state and to delegitimise the ‘Roman’ faction, the ‘Iliescu’ faction closely collaborated with the coal mining labour class (primarily the leadership of organised labour), empowering coal miners to act independently as control and security mechanisms, substituting for law and order, and in the process undermining the legitimacy of the state. By doing so, the ‘Iliescu’ faction increased the powers and positionality of trade union leaders who already had an elite-level status. The newly established political-labour collaboration exerted institutional change, as the political apparatus was transformed and the continuity of the ‘old’ elites, members of the former regime, was secured (interview code S_4).

The Structural Particularities and Institutional Implications of the Last Instances of Labour Unrest in the Romanian Coal Mining Sector (January and February 1999)

I will now direct my analysis towards the last two instances of labour unrest and highlight how they differ from the labour movements from the beginning of the 1990s. The Fifth and Sixth Mineriadas took place in January respectively February 1999, with the violent demonstrations erupting as a response of the coal mining labour class to the process of restructuring of the coal mining sector, which was designed and implemented by the dominant elites (Mineriada ianuarie 1999, Part 1 to Part 10, 2010).

There is an obvious shift in power dynamics and the legitimacy of coal miners as social agents: if in the 1990-1991 Mineriadas, coal miners exhibited clear strength and decision-making powers in the social dialogue with dominant elites, it was now apparent that the labour class was losing its significance, and as such struggling to retain positionality within the power structure of the state. Furthermore, it was highlighted during my interview with a historian specialised in the Communist regime that the dominant elites were no longer interested in engaging in a collaborative arrangement with the labour class and its leadership (interview code S_4). What we see is the elimination of organised labour representatives from the elite coalition and their integration amongst non-elite social agents. At the same time, coal miners lost their privileged status within the overall labour class structure. Having served their purpose as either instruments of delegitimising the political opposition or mechanisms for downgrading the status of a competing sub-coalition, the dominant elites sought to limit the size of the dominant sub-coalition. Ultimately, by tightly managing the structure and composition of the dominant sub-coalition, the dominant elites placed institutional control of the industrial order in the hands of fewer levels of individuals from fewer spheres of influence. In doing so, the proportion of rents distributed to each dominant elite member rose, as the overall extracted wealth was now divided amongst fewer social partners.

This shift in the power dynamics of the dominant sub-coalition re-emphasizes the concept that elites are stable but not static. There are constant fluctuations in the internal dynamics and the identity of members of the dominant sub-coalition. The institutional setting is defined by the continuous process of negotiating positionality within the coalition and the allocation of rents. What we see is the exclusion of weak members and the re-affirmation of strong members. The concept of the continuity of elites is reinforced – that is, the position of power of the ‘old’, former Socialist regime political

players within the ruling state structure remained stable vis-à-vis the position of the leadership of organised labour, which was only awarded a temporary position of power.

The coal miners threatened to march on Bucharest if the government failed to meet their demands. In the context of an industry suffering from severe losses and accumulating debt, coal miners formulated the following requests: universal wage increases of 35 per cent, the cancellation of the mine closures at Dâlja and Bărbăteni and a fund of 200 million US dollars to be utilised as a compensation package for workers going into retirement (the equivalent of 500 US dollars per miner per month) (Mineriada ianuarie 1999, 2010). The government refused to meet these demands and as a result, coal miners began their march from Petroșani to Bucharest in January 1999. The violent protests from January 1999 were ended at Cozia – an event that has been labelled as “The Peace of Cozia” (Mineriada ianuarie 1999, 2010). An agreement was reached between the trade union leaders and the Prime Minister Radu Vasile. The Prime Minister reassured coal miners that the activity at the Dâlja and Bărbăteni mines will not be shut down and that none of the miners implicated in the fifth Mineriada will be charged or criminally investigated. None of these promises were kept and as a result, in February 1999 the miners marched towards Bucharest once again.

The February 1999 Mineriada is considered to be a failure vis-à-vis the January 1999 Mineriada. First of all, the January protests were much more aggressive and the number of miners marching towards Bucharest was substantially larger (an exact number is not known, as sources vary, but there is a consensus that around 20,000 coal miners joined the mass demonstration) (Digi24, 2015). Second of all, the Ministry of Internal Affairs managed to better prepare and organise the police forces that set up the roadblock. And third of all, as they marched towards Bucharest, coal miners no longer succeeded in gathering more supporters as they had done three weeks before. This time there were no other social groups that supported their cause and they were not given any food and shelter from the local authorities in the towns that they passed through (Mudavaflex, 2010).

Similar to the fifth Mineriada, the mass demonstrations in February represented the attempt of a struggling labour class to retain its position and decision-making powers within the changing power dynamics of the institutional setting. The dominant elites were no longer interested in maintaining a collaborative arrangement with the coal miners and their labour representatives. The weakening of the labour class and the

exclusion of organised labour representatives from the dominant sub-coalition becomes even more evident when we take into account that the active prosecution of coal miners ensued (interview code S_4). Coal miners were no longer under the protection of the dominant elites as they once had been. Furthermore, we no longer see the alliance between coal miners and the security forces, when the labour class acted as a security mechanism in itself and substituted for law and order (interview S_4).

There is a visible decrease in the power and legitimacy of the labour class and its representatives between the fifth and sixth Mineriada, despite the fact that timeframe-wise they were only three weeks apart. By the sixth Mineriada, coal miners were considerably more weakened as a social coalition vis-à-vis the dominant elites. This assessment results from their less successful attempt to organise and march on Bucharest. According to Digi24 (2015), the total number of demonstrators in the February 1999 Mineriada was approximately one fourth of that in January. Furthermore, their declining legitimacy is evident due to their inability to gather support from other groups of social agents (Cernat, 2006). Last but not least, the discrepancy in power between labour and the dominant elites is most striking when we observe the ease with which the last Mineriada was suppressed (interview code S_4).

5.4 Conclusion

This chapter has shown that the dominant elites are the primary drivers of institutional change within the Romanian political economy. The dominant elites have captured the state and its institutional structure, and in the process they have managed to capture the coal mining sector. The principal aspects that have emerged throughout this chapter are that the dominant elites are a stable, but not static social group, and the ‘continuity of elites’ is a defining feature of the internal dynamics of the Romanian political economy. Furthermore, what this chapter has highlighted is the fact the dominant elites hold multiple positions within the ruling state structure, resulting in an institutional context with highly concentrated power.

The dominant elites permeate the institutional setting throughout time alongside other categories of social agents – elite and non-elite. Rather than being insular forces and acting independently within the institutional setting, the dominant elites and other social agents engage in different forms of collaboration and conflict (Streeck, 2007; Bohle and Greskovits, 2013). Although the assumption is that elites are stable, there are constant

fluctuations within the composition of both the dominant elite sub-coalition and the other competing elite sub-coalitions (North et al., 2007, 2009, 2013). Some sub-coalitions of elites can achieve dominant elite status, while others lose their legitimacy within the ruling state structure and are downgraded to a non-elite status.

What has emerged throughout the chapter is that the institutional configuration of the coal sector is fraught by a continuous process of interaction between the dominant elites and different forces of change – interaction that has exerted institutional change and shaped the direction of Romanian coal mining. The interaction between the dominant elites and industrial policy in the Socialist era showed that the coal mining sector was defined by outdated and insufficient technological resources.⁴² The dominant elites were highly aware of the deficient indigenous technological base and as a result, they sought to mitigate this competitive disadvantage through foreign collaboration. To compensate for these inappropriate technological standards, dominant elites facilitated the creation of an import-oriented institutional framework, which entailed a high dependency on technological imports, licenses and technical documentation.⁴³ Consequently, the process of technological upgrading became highly dependent on the perpetuation of this open, import-oriented economic paradigm that facilitated the creation of production capacities based on new, foreign technological resources. However, the institutional configuration of the coal mining industry underwent a massive transformation starting with 1973, when the dominant elites shifted the orientation of industrial policy by reducing imports and minimising the dependency on technological imports. My findings indicate that the decision to cut foreign technological resources was driven by 1) the national industrialisation programme, which promoted the development of internal capacities, and 2) the regime's external debt payment plan, which focused on the elimination of foreign imports and the boosting of exports. The institutional outcome was the creation of a new inward-oriented industrial order that was based on old technological reserves and the development of indigenous technological capacities. In the post-Socialist era, the dominant elites facilitated the restructuring of the industrial order via a series of institutional measures: 1) the implementation of two emergency ordinances, and 2) the development of a vertical integration programme that sought the termination of loss-making sites and the re-organisation of profitable sites. Thus, I argue

⁴² National Romanian Archives Files 3064/33/1973; 3064/52/1976; 3294/65/1982; 3294/234/1982; 3294/177/1989; 3354/38/1980; 3354/26/1988.

⁴³ National Romanian Archives Files 3064/27/1971; 3064/112/1971; 3064/67/1972; 3064/33/1973; 3064/52/1976.

that industrial policy has to be seen as a force of change with which dominant elites engage and interact within the institutional context of the coal mining industry, introducing new paradigms, then re-shifting them and finally terminating the sectoral economy altogether, and in the process exert institutional change by re-shaping the structure of coal.

The other instance analyses the interaction between the dominant elites and labour that shaped the institutional context of Romanian coal mining. The post-Socialist capitalist taxonomy drawing on Polanyi overlooks how conflict between political and social agents can act as an element for development and institutional change (Bohle and Greskovits, 2013). To capture the full extent of the dynamism of the institutional context and the wide-ranging types of interaction between different categories of social agents, I conceptualised an institutional configuration fraught by tensions, conflict, collaboration and affiliations between different categories of social agents, elite and non-elite, from diverging spheres of influence that is in a continuous process of transformation. In order to capture the fluctuations within the internal dynamics of the coal sector, I analysed the changing alliances and affiliation between elites and other social actors – in this case, coal miners and their labour representatives. By comparison to the labour classes from other industries, coal miners have always distinguished themselves among the more unique sub-categories of the Romanian proletariat (Velica and Shreter, 1993; Larionescu et al., 1999; Cernat, 2006; Boboc, 2009; Mitchell, 2013). To examine the question of the power of coal miners and their ability to exert institutional change on the Romanian political economy, I analysed the case of the *Mineriadas*, which were a series of six of miners' revolts that took place throughout the 1990s (Larionescu et al., 1999; Cernat, 2006; Evenimentul Zilei, 2010a, 2010b; Digi24, 2015; Jiu Valley Portal archival videos). What can be observed is how the role and positionality of coal miners and their labour representatives changed from the early 1990s to the end of the first decade post-Socialism. Initially, the institutional setting was defined by the alliance between dominant elites and the labour class, with the dominant sub-coalition utilising coal miners to suppress any form of political opposition and contestation emanating from competing elite sub-coalitions. By the end of the 1990s, the institutional context underwent a series of changes and we no longer see the prevalence of a collaborative arrangement between the dominant elites and the labour class. Instead, collaboration turned into conflict and what can be observed is the massive loss of power and positionality of the labour class in conjunction with the

instrumentation of a process of delegitimisation and downgrading of organised labour representatives from an elite to a non-elite status by the dominant elites. Coal miners struggled to retain their powers and positionality in the elite structure of the state; however, the dominant elites succeed in taking away their collective powers and ousting them from the elite coalition.

Within the continuously changing institutional context, I also capture the fluctuations in the composition of the dominant elites and emphasize how this composition has gradually become more exclusive over time. In order to maximise benefits and to better manage the interactive exchanges, I argue that the dominant elites have imposed a mechanism that tightly controls the size of the dominant coalition, ultimately decreasing its membership over time, and in the process, placing institutional control of the industrial order in the hands of fewer levels of individuals from fewer spheres of influence. Having served its purpose as tools of annihilation of political opposition and institutional transformation, I show that organised labour was stripped of its powers and delegitimised as a member of the elites.

Considering the role it plays in the institutional context of the coal sector, I argue that the interaction between the dominant elites and the other forces of change – industrial policy and labour, has had a transformative influence on the industrial order and its institutional configuration. More precisely, the interaction has resulted in the obstruction of technological upgrading, the restructuring and re-organisation of the industrial order, and the delegitimisation of the labour class, which all together have accelerated the ossification of the Romanian coal industry that was already plagued by a series of structural problems developed during Socialism.

Chapter 6

Investigating the Role of Elites in Influencing Institutional Change in the Romanian Auto Sector (1960s-2010s)

6.1 Introduction

This chapter discusses the position of the auto sector within the Romanian institutional configuration between the mid-1960s and 2010s, and provides evidence of how different types of elites have influenced the structure of the institutional order throughout time.

By focusing on the particularities of the institutional configuration of auto, I aim to capture some of the regional distinctiveness of the Romanian national variety. The auto sector is a unique instance of an industrial branch established during the Socialist period, as part of the CC industrialisation programme, which has been displaced and restructured by neoliberal transformative agents during the post-Socialist era. Unlike many energy-intensive, Stalinist-oriented industries with a ‘star status’ – a prime example would be coal mining – that died shortly after the end of the Socialist period in Romania, the auto sector represents a success story that overcame the post-transition economic depression of the 1990s, and experienced exceptional growth and diversification after its displacement by foreign capital. Furthermore, I consider the institutional trajectories of both Dacia and Olcit and aim to identify the structural particularities that are prevalent across the two case studies. By comparing and contrasting the two micro-level units, various nuances are captured and I demonstrate that the sector has not developed homogeneously in terms of timeframe, size, geography, level of complexity, post-privatisation structural developments and institutional complementarities.

In the second section of this chapter, I explore who are the institutional players influencing the configuration of the Romanian auto industry over time. The identity of the elites shaping and controlling the structure of the sector is distinct from that of coal mining. More specifically, during the Socialist period, dominant elites from the political sphere controlled the structure and direction of the industry; however, from the 1990s onwards there was a shift in roles and a re-configuration of power. FDI displaced the structure of auto, with MNCs taking control of the industry and domestic elites taking a

more backseat role within the structure of the overall elite coalition. I also analyse the power and positionality of organised labour in auto, highlighting the fact that the labour model is defined by a high level of unionisation, skilled labour and extensive training schemes, and average wages greatly exceeding the national average.

The third section captures the story of institutional change in the Romanian auto industry by identifying and analysing four instances of interplay between the elites and the different forces of change permeating the internal dynamics of this sector. The three instances of interplay embedded within the internal dynamics of the auto sector are: 1) the interaction between elites and industrial policy, 2) the interaction between elites and labour, and 3) the interaction between elites and education.

In the fourth section of the chapter, I re-consider the key moments of institutional transformation emerging from the preceding empirical analysis and draw conclusions on how the interplay between the different categories of social agents influenced the institutional setting of the auto sector throughout time.

6.2 Presenting my Findings on the Identity of Elites in the Romanian Auto Sector

The configuration of elites differs throughout the three sectors, highlighting the fact that each sector is defined by institutional specificity. In order to capture the story of institutional change within the auto sector and to understand how it diverges from that of coal mining and business services, the concept of ‘dominant elites’ has to be systematically unpacked and its constitutive elements analysed.

I have emphasized that coal mining has been defined by an inward-oriented structure of ownership and control that managed to remain stable throughout time, despite the fact that there have been major fluctuations in the composition of the domestic dominant coalition. In comparison to the stable ‘domestic nature’ of coal mining ‘dominant elites’, after an initial period of state ownership and control the auto sector was displaced by FDI and became integrated within the European automotive global production network in the late 1990s, thus resulting in the change in identity and configuration of ‘dominant elites’. International forces experienced an increase in identity strength and legitimacy, ultimately being integrated into the ‘dominant coalition’ alongside the domestic elites. At the same time, the power and positionality of domestic elites suffered a downgrade. Thus, to understand the role of ‘dominant elites’ and how institutional change has occurred within this sector, international forces were

examined in relation to domestic players. Furthermore, the concept of institutional change was treated as a result of the interplay of domestic and foreign elite actors, and any changes they encounter in terms of power and positionality over time.

6.2.1 Role of Domestic Elites from the Political Sphere within the Institutional Structure of the Romanian Auto Sector

In order to map the identity of domestic elites from the political sphere, I divide the timeframe of the auto sector into two periods: 1) the Socialist period (1966-1989), which existed from the moment the industry was created, and 2) the post-Socialist period (1990-present), which represents the moment the regime transitioned from a planned- to a market-economy, followed by the gradual development of the Romanian capitalist variety that is a process that continues today.

During the Socialist period, dominant elites from the political sphere controlled the structure and direction of the auto industry, as any form of private ownership and enterprise was prohibited. Control exerted by these domestic elites was stable during this period despite the fact that with time there have been changes in the positionality of actors and a rotation of roles within the sector's internal dynamics (North et al., 2009, 2013). This emphasizes the fact that domestic elites displayed continuity in their role as drivers of the institutional configuration. Furthermore, there were diverging levels of power among the domestic elites from the political sphere. The members of the dominant elite coalition during Socialism include the senior officials of the CC with its two main governing bodies – the Permanent Bureau of the Executive Political Committee and the Secretariat of the Romanian Communist Party.

Similar to Chapter 5, the main argument that I want to advance is related to the existence of a constancy of power of the dominant elites. In terms of the membership of the CC of the Romanian Communist Party, the composition of elite players remained stable and concentrated throughout all four 'electoral' terms from 1969 to 1989. This reinforces my concept of the 'continuity of elites' during this period, as there is a high concentration of stable power. Also, similar to the coal mining sector I have found that dominant elites retained multiple positions within the national-level institutional configurations, reinforcing my concept of a 'multiplicity of roles'. My findings reveal that the institutional configuration is defined by the existence of a strong overlap between the memberships of different national-level institutions. This becomes very

clear when we analyse the membership of the Permanent Bureau and the Secretariat, which clearly indicates that dominant elites play dual roles. Simultaneously, I want to strongly emphasize that the institutional configuration is permeated by the continuous interaction and formation of alliances between elite members from the political and economic spheres. This constant association and the ‘multiplicity of roles’ results in the formation of an overall group or coalition, where the demarcation of the two spheres – political and economic – becomes indistinct. Furthermore, the evidence that I have unearthed shows that members of the economic sphere – the directors of enterprises – were highly embedded in the political sphere, due to their high-level of involvement into the Communist Party and the fact that the enterprise is state-owned. What this means is that we don’t have a real representation of domestic capital.

In the context of auto, my findings reveal that the State Planning Committee closely collaborated with the Ministry of Machinery Construction in order to manage the structure and direction of the auto sector. To ensure that the plan, the bedrock of the Socialist economy, was met, the State Planning Committee and Ministry of Machinery Construction would actively collaborate with other supporting ministries in order to ensure the delivery of various necessities: investment funds (Ministry of Finance), qualified personnel (Ministry of Labour), machinery and tools (Ministry of Machinery Construction, Ministry of Machinery-Tools, Electro-technics and Electronics, Ministry of Heavy Machinery Industry, Ministry of Technical Material Supply and Control of Fixed Assets Management), chemical products and alloys (Ministry of Chemical Industry, Ministry of Metallurgic Industry), infrastructure (Ministry of Transport and Telecommunications), and the importation of machinery and licenses (Ministry of Exterior Commerce and International Economic Cooperation).⁴⁴ Furthermore, evidence shows that decisions related to the signing of licensing agreements, the Five-Year Production Plan, import-export quotas, the creation of new car models, and the supply of parts were formulated by the State Planning Committee in conjunction with the representatives of foreign capital – Renault and Citroën.

Archival records showed that the CC and the State Planning Committee communicated the central strategies and targets to each industrial branch.⁴⁵ Each industrial branch was

⁴⁴ National Romanian Archives Files 3064/40/1972; 3064/108/1973; 3064/26/1975, 3064/104/1976; 3294/163/1981; 3294/7/1982; 3294/280/1983; 3294/390/1984; 3294/4/1986; 3294/150/1986; 3294/154/1988; 3294/372/1988; 3294/410/1989.

⁴⁵ National Romanian Archives Files 3064/40/1972; 3064/108/1973; 3064/104/1976; 3294/280/1983; 3294/150/1986; 3294/309/1986.

organised into an Industrial Complex. An Industrial Complex could have several enterprises under its control and direction – more specifically, the Automobile Industrial Complex had a total of 13 enterprises: two car manufacturing enterprises, 10 components suppliers, one exterior commerce enterprise and one technical support and service unit. The Industrial Complex acted as a transmission belt, having performed the role of transforming institutional measures into practical individual business plans and targets that were then allocated to the different enterprises from the automobile sector. Hence, the Industrial Complex controlled and shaped the direction of the entire industrial branch by taking the strategies and targets formulated at the central-level and imposing and monitoring their implementation at enterprise-level. Based on this, my argument is that the directors of the Industrial Complex were a sub-coalition of elites that co-existed with the dominant elites, but which were inferior in terms of positionality and power.

At the enterprise-level, the elites formulated strategies to meet the targets received from ‘above’ and were under the constant supervision of the Industrial Complex who monitored whether the plan was met. Directors of automobile enterprises constituted their own unique elite sub-coalition that was different from the other sub-coalitions that I have introduced in terms of both power and positionality. More precisely, the power and positionality of enterprise-level elites was lower than that of elites at the national- and regional-level. In this sense, enterprise-level elites didn’t influence industrial policy or formulate strategies and production targets, instead they acted as ‘implementers’ of these institutional measures emanating from the regional and national institutional level. However, it must be understood that these players clearly differentiated themselves from workers in the auto sector.

The “new” dominant elites within the Romanian post-Socialist variety are constituted by the members of Government. Their composition has remained considerably stable throughout Romania’s history as a capitalist variety. Despite the rise and fall of multiple ruling Governments, elite players have continuously engaged in a form of political party and sub-coalition migration, in order to ensure their positionality within the new power configuration.

The Government has strongly influenced the structure and direction of the auto industry. Based on interviews with nine industry representatives occupying senior executive positions in the two firms of my sample (interview codes A_1 to A_9), the senior-level

officials that interact most closely with the auto industry include: the Prime Minister, the Minister of Industry, the Minister of Transportation, the Minister of Finance, Minister of Labour and the Minister of Environment. According to a current executive director at Dacia (interview code A_1):

“When we were working at the privatisation contract we had to pass by all the ministries: Ministry of Finance, Ministry of Industry, Ministry of Transportation, Ministry of Environment, Ministry of Labour [...] and the Prime Minister of course.”

The quotation indicates that acting as drivers of institutional change, the dominant elites allowed and facilitated the displacement of the industry by FDI – the process of privatisation would have not been possible without domestic elite approval. Furthermore, the Government has created a favourable institutional context by offering various subsidies, creating infrastructure and issuing ‘business friendly’ policies to promote the development of auto.

The nature and degree of the interaction between the Romanian state – the dominant elites from the political sphere – and executive directors in auto firms has evolved significantly from the Socialist period until present. During the Socialist period, executive management represented an extension of the state, with enterprise directors acting as a transmission belt for the institutional measures formulated by the CC. Socialist ideology was based on the contouring and promoting strong personalities as ‘pillars of society’, who most often had ties to the Communist Party and possessed decision-making powers with regards to an area of the state (Cernat, 2006; Ban, 2012). However, the dynamics of the state-capital relationship changed with enterprise privatisation and the inflow of foreign capital, with market principles now dictating the terms of the relationship. From acting as an extension of the state, the enterprise and its executives are now in a continuous process of ‘courting’ the state in order to obtain various advantages in the form of subsidies, business-friendly policies and infrastructure-related benefits (Myant and Drahokoupil, 2011; Bohle and Greskovits, 2013; Martin, 2013).

The interaction between the firm and the MNC headquarters has also shifted in terms of nuance over time – more precisely, foreign management captured the structure of auto enterprises and downgraded the position of domestic management within the power

configuration. According to a former executive director at Olcit (and later Daewoo) (interview code A_7):

“They [Daewoo] brought the tier-1 management. By tier-1, I mean President, Vice President. At tier-2, there were a total of 10 executive managers and 10 deputies – they [Daewoo] occupied the executive roles, we [domestic managers] were the deputies. As this was a mixed enterprise 51-49 per cent, they were the executives and we were the deputies.”

Similarly, when discussing who makes the strategic investment decisions within the company, one of the key executive directors at Dacia argued that (interview code A_1):

“We do not make any investment decisions on our own [domestic management]. Everything related to investment decisions is orchestrated at the central level [Renault]. Dacia [Romanian subsidiary] can think about what investments it would like to make, what developments it would like to pursue, it consolidates a plan and then finally it goes to the ‘king’ for approval.”

The two quotes presented above highlight very well how the representatives of foreign capital have captured the institutional configuration of the two Romanian auto enterprises, and how domestic management took a more ‘backseat’ role within the power configuration. The imposition of foreign managerial resources indicates a high level of external dependency of the subsidiary and at the same time, a high level of centralised control exerted by the MNC headquarters. Furthermore, the quote shows that the Romanian auto industry was captive to the decisions and strategic direction imposed by the central leadership at the headquarters, thus having no autonomy to decide the direction of the domestic subsidiary.

However, as the institutional context underpinning the industry matured, domestic managerial talent matured as well, and the phenomenon which can be observed is a re-integration of Romanian management within the senior managerial elite. One of the current executive directors at Dacia emphasized this shift in internal dynamics very well (interview code A_1):

“[The inflow of foreign capital meant that] all the key management positions were taken by the French. [...] French managers took over the

positions of Director of Finance, Director of Industry, Director of Commerce, Director of Quality, Director of Mechanics, Director of Components, Director of Logistics and Director of Manufacturing. [...] Only two managerial positions were not occupied by French individuals – Human Resources and Engineering which was held by me. So, this is how it began. Afterwards, things started to evolve slowly in the sense that the number of expats in key managerial positions started to decrease. Gradually, intermediary managerial positions began to be occupied by Romanians. Currently, all the key positions in Manufacturing, Assembly, Bodywork, Dye-works and Pressing are occupied by Romanians.”

The evidence presented above clearly indicates that after an initial loss in power and positionality that occurred at the time of the privatisation and during the first few years post-privatisation, domestic management started to gradually win back some of its decision-making powers. What this shows is that the degree of external dependency of Romanian auto subsidiaries has decreased and the level of centralised control exerted by the headquarters is lower. Domestic management has developed stronger decisional powers, improving its positionality vis-à-vis foreign management, and as a result, it has gained a higher degree of autonomy of its activities and operations from the centralised control imposed by the headquarters.

6.2.2 Role of Foreign Elites within the Institutional Structure of the Romanian Auto Sector

Representatives of foreign capital – managers of MNCs – constitute primary players in the transformation and evolution of the institutional configuration of the Romanian auto industry in the post-Socialist period. The presence of foreign agents within the internal dynamics of the industry dates back to the Socialist period (Ion Mihai Pacepa in Historia, 2017a; Historia, 2017b, Lupul Dacic, 2014). More precisely, the establishment of the two state-owned auto enterprises Dacia and Olcit was undertaken through institutional collaboration between the dominant elites from the political sphere and representatives of foreign capital – Renault and Citroën.⁴⁶ The type of institutional collaboration that was prevalent during the Socialist period was the licensing

⁴⁶ National Romanian Archives Files 3064/104/1976; 3294/163/1981; 3294/7/1982; 3294/198/1982; 3294/268/1982; 3294/280/1983; 3294/390/1984; 3294/48/1986; 3294/150/1986; 3294/176/1986; 3294/238/1986; 3294/53/1987; 3297/71/1987; 3294/154/1988; 3294/172/1988; 3354/46/1981; 3354/54/1982; 3354/3/1987; 3354/10/1987; 3354/26/1988.

agreement, as any form of foreign ownership was prohibited by the Communist Party (Cernat, 2006; Bohle and Greskovits, 2013; Martin 2013). This early interaction with representatives of foreign capital paved the way for future foreign collaboration, as well as led to the creation of a built-in mechanism that allowed the intervention of other types of international forces in the institutional configuration of the sector.

The post-Socialist period was marked by the establishing of a more embedded and complex type of domestic-foreign institutional collaboration. The state facilitated the privatisation of the industry by allowing MNCs to acquire the two national players. There are three instances of FDI displacing the institutional order of the industry:

- 1) the formation of the mixed enterprise Rodae Craiova in October 1994 through a joint-venture between Automobile Craiova S.A. (Olcit) and Daewoo, with a 49-51 per cent split or a \$156.12 million – \$149 million equity capital split (Romanian Car, 2014; General Director Liviu Tănăsescu, 2016)⁴⁷;
- 2) the acquisition of a 51 per cent stake in Dacia by Renault for \$50 million in 1999 (Radio Free Europe, 2001; Ziarul Financiar, 2012a; Bursa, 2014); and,
- 3) the acquisition of 72.4 per cent stake in Automobile Craiova S.A. (Olcit) by Ford Motor Company for \$57 million in 2008 (BalkanInsight, 2008; BBC, 2008; Evenimentul Zilei, 2009; General Director Liviu Tănăsescu, 2016).

In all three instances of FDI, MNCs held a dominant position within the ownership structure of the enterprise. Despite the strong influence and presence of representatives of foreign capital throughout the Socialist period, the institutional configuration of the sector was primarily controlled by domestic elites from the political sphere. I argue that the post-Socialist auto industry has been captured by foreign elites. What can now be observed is a shift in roles and a re-configuration of power. As highlighted above, the domestic-foreign power dynamics are now controlled by foreign elites, with domestic elites taking a more backseat role within the structure of the overall elite coalition. To better illustrate this, from my investigation of interviews with industry representatives and industry press it emerges that foreign managers are the players who orchestrated the upgrade of internal technological processes and resources, as well as modernised the entire product portfolio of the Romanian auto industry. Foreign capital also triggered the re-qualification of labour and introduced more efficient organisational structures.

⁴⁷ Internal company document provided by an industry representative.

Furthermore, foreign management directed the externalisation of certain segments of the value chain as well as stimulated the inflow of foreign components manufacturers within the institutional configuration, thus determining the expansion of the Romanian auto horizontal industry. A former executive director at Dacia emphasized the story of ‘industry capture’ very well (interview code A_5):

“The return of Renault at Dacia meant the radical transformation of the plant which was fully modernised. Investments were made to upgrade technological processes and products. So, on the one hand we saw the modernisation of the plant and technological capabilities, on the other the modernisation of products. [...] We were directed to make substantial changes in our distribution network. Renault made us modify our sales outlets – we had to build new sales points and develop new projects designed and approved by Renault, which promoted the brand image and the brand products. We had to invest in new machinery and equipment, and the re-qualification of people. Dacia established an automobile academy/institute in Bucharest, where we qualified our people from a mechanic level to a General Director level. We were also involved in these modernisation/re-qualification programmes. Gradually, all the outdated buildings, machinery and labour skills typical of a Communist institution were transformed into modern institutions typical of today’s international car manufacturers. [...] The introduction of new technology and the modernisation of processes led to a decrease in the labour force. Moreover, employment levels fell also due to externalisation. More precisely, the plant only kept its actual automobile production activities, whereas the production of components was externalised. This led to the creation of a range of enterprises, external to the Dacia plant, with their own labour force that specialise in the production of a certain type of component or set of components. A large proportion of the dismissed Dacia labour force went to work for these components producers. [...] The return of Renault to Romania had an extraordinary impact on the formation and network ramification of the components industry, with the French giant encouraging the relocation of multiple international components suppliers – a fact which triggered the re-qualification and internal stability of the labour force.”

Both Renault and Ford have increased their ownership stakes within Dacia and Automobile Craiova S.A. (Olcit) respectively. At present, Renault owns 99.42 per cent of the share capital of Dacia (Mediafax, 2010; Știrile ProTv, 2014; Libertatea, 2018), whereas Ford acquired the remaining shares through two consecutive bids in 2009 (Capital, 2009; Gazeta de Sud, 2009; General Director Liviu Tănăsescu, 2016).⁴⁸ Thus, my argument is that while the representatives of foreign capital have increased the degree of control they hold over the structure and direction of the industry, divestment resulted in the gradual loss of power of domestic elites. In this sense, foreign elites have assumed an even greater positionality and level of legitimacy in the interaction with domestic elites and vis-à-vis other social agents permeating the institutional configuration.

6.2.3 Role of Labour vis-à-vis Other Social Agents within the Institutional Structure of the Romanian Auto Sector

My argument is that organised labour in auto is in fact an elite force that challenges the other social actors permeating the institutional context – I will elaborate on the instances of conflict later on when I analyse the interaction between labour and elites.

Similar to coal mining, I argue that industrial relations in the Romanian auto sector are different from the typical institutional template associated with CEE political economies. The labour model is defined by a high level of unionisation and furthermore, it did not experience the fall in union membership prevalent in other industries – this contrasts the weak union movement and low union membership present in the business services sector. According to my interviews with senior executives from both Dacia and Ford, union membership exceeds 80 per cent in both enterprises.⁴⁹ Moreover, the labour model is based on skilled labour and extensive training, with there being a continuous, long-term investment in skill and competence development (Jürgens and Krzywdzinski, 2009). The Romanian auto sector is characterised by high wages, with average wages greatly exceeding the national average (Carieră, 2015). There is a considerable degree of labour involvement in managerial decision-making, and labour

⁴⁸ In January 2009, Ford Motor Company inserted a total of €250 million in Ford Romania, thus decreasing Automobile Craiova S.A.'s share package by 2.43 per cent (Gazeta de Sud, 2009). In the spring of 2009, Ford acquired another 22 per cent share of Automobile Craiova owned by SIF Oltenia, also known as Societatea de Investiții Financiare Oltenia S.A. (Financial Investment Company Oltenia) – a publicly listed investment company at the stock exchange in Bucharest (Evenimentul Zilei, 2009). Finally, in August 2009 Ford launched a bid for the 3.26 per cent shares left that were owned by Automobile Craiova S.A.

⁴⁹ Interviews: A_1, A_2, A_4, A_8, A_9.

representatives are engaged in a constant process of negotiation with management. All of these institutional features indicate that the sector displays elements of a 'high-road' labour model (Pyke and Sengenberger, 1992).

6.3 Elite Relations and Dynamics of Change in the Romanian Auto Sector (1960s - 2010s)

The institutional context is permeated by a variety of social agents, with diverging power and positionalities, which co-exist and interact with other forces of change. What I want to highlight is the degree of dynamism that characterises the institutional setting. I conceptualise a spatial and temporal dimension defined by continuous exchanges, in the form of both collaboration and conflict, where the players and forces of change do not exist in isolation. These exchanges have had disruptive and creative effects on the institutional structure of the industry – displacing the existent institutional logics and replacing it with a new institutional model, and triggering a process of upgrading and the creation of new internal capacities. To construct a comprehensive story of institutional change in the Romanian auto industry, I have identified three instances of interplay between dominant elites and different forces of change that are embedded within the internal dynamics of the sector: 1) the interaction between dominant elites and industrial policy, 2) the interaction between dominant elites and labour, and 3) the interaction between dominant elites and education.

Table 6.1 Descriptive Information Regarding the Auto Firm Sample					
Company Name	Production Overview	No. of Employees in Romania in 2018	Location in Romania	Revenue in Romania in 2018 (million euros)	Some Key Historical Moments
Automobile Dacia S.A.	<p>Total production in 2018: 335,435 automobiles</p> <p>Models produced in 2019: 1) Dacia Duster – 236,921 units 2) Dacia Sandero – 42,146 units 3) Dacia Logan – 33,841 units 4) Dacia Logan MCV – 22,354 units</p> <p>Total production capacity expected to rise to 400,000 units in 2020.</p>	14,723	Pitești	5,300	<p>Established in 1966.</p> <p>First automobile produced in 1968 under a ten-year license with Renault.</p> <p>1978: license with Renault expired.</p> <p>Renault acquired a 51 per cent stake in Dacia in 1999 (privatisation).</p> <p>Presently, Renault owns 99.42 per cent of the share capital of Dacia.</p>
Ford Romania	<p>Total production in 2018: 140,000 automobiles</p> <p>Models produced: EcoSport – 140,000 units</p> <p>Total production capacity expected to rise to 250,000 units in 2019.</p> <p>Confirmed plans to create production capacities for a second model in 2019.</p>	4,419	Craiova	2,300	<p>In 1976, the Mixed Romanian-French Enterprise Olcit is formed between the Romanian state and Citroën.</p> <p>Citroën withdrew from the agreement in 1991 and the Romanian state nationalises Olcit, forming Automobile Craiova S.A.</p> <p>Rodae Craiova is formed in October 1994 through a joint-venture between Automobile Craiova S.A. and Daewoo.</p> <p>In 2001, General Motors acquired the majority of the auto division assets of Daewoo and formed GM Daewoo Auto & Technology. Rodae Craiova operated under a license with General Motors between 2001 and 2005.</p> <p>2006: the Romanian state stepped in and acquired the 51 per cent share package held by GM.</p>

					<p>Ford Motor acquired a 72.4 per cent stake in Automobile Craiova S.A. in 2008.</p> <p>Ford acquired the remaining shares through two consecutive bids in 2009. Presently, Ford owns 100% of the share capital at Craiova.</p>
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Source: Adevărul, 2018a; Capital, 2009; Economica, 2019; Gazeta de Sud, 2009; Libertatea, 2018; Lifenews, 2019; Ziarul Financiar, 2018, 2019.

6.3.1 Elite Relations, Industrial Policy and Institutional Change in the Auto Sector

Similar to coal mining, I argue that the industrial policy package applied has to be seen as a force of change with which the different categories of elites interact within the institutional configuration of the auto industry.

During the 1960s and early 1970s, auto was characterised by the massive importation of components and the acquisition of technical documentation from foreign players from the automotive sector⁵⁰ – this industrial policy was designed and implemented by the dominant elites from the political sphere. According to the archival materials that I have analysed, from the mid-1970s the dominant elites imposed the gradual reduction of technological imports and thus, curtailed the process of externally-driven technological upgrading, in favour of an autarchic system based on internal production capacities and indigenous technological reserves.⁵¹ The incremental elimination of technological imports resulted in the stagnation of technological progress and the emergence of massive quality problems that plagued domestic production until the displacement of the industry by foreign capital. In this new, externally-driven industrial policy, MNCs dismantled the ‘old’ technological capacities that were outdated and inefficient, replacing them with new imported technology and, thus facilitating a comprehensive process of upgrading and the restructuring of entire industry. I argue that since the intervention of foreign elites technological transfer and upgrading have occurred continuously and much more systematically by comparison to the Socialist legacies of the sector.

The Establishment and Development of the Romanian Auto Sector during the Socialist Era (1960s-1980s)

According to an interview with the former Minister of Machinery Construction between 1965 and 1985 (interview code A_10), until 1960 all machinery-oriented industrial branches were severely underdeveloped within the Romanian political economy. In order to meet the needs of the internal market and to create an indigenous technological base, the CC formulated an industrialisation programme with individual development objectives for each industrial branch. The auto sector was only established in 1966

⁵⁰ National Romanian Archives Files 3064/40/1972; 3064/81/1972; 3064/108/1973; 3064/26/1975; 3064/74/1975; 3064/104/1976; 3294/163/1981; 3294/7/1982; 3294/198/1982; 3294/268/1982.

⁵¹ National Romanian Archives Files 3064/108/1973; 3064/26/1975; 3064/74/1975; 3064/104/1976; 3294/7/1982; 3294/280/1983; 3294/390/1984; 3294/4/1986; 3294/150/1986; 3294/238/1986; 3294/309/1986; 3294/53/1987.

(Historia, 2017a), despite the existence of legacies of the automotive sector dating back to the 1940s, with trucks being manufactured at Braşov; off-road vehicles being produced at Câmpulung; and, the existence of a range of components factories (Ştiinţă&Tehnică, 2016).

During the early 1960s, a license was wanted for a medium-sized automobile with a cylindrical capacity between 1,000 and 1,300 cm³, and a production plan between 40,000 and 50,000 automobiles per annum (Ion Mihai Pacepa in Historia, 2017a). The following car producers participated in the bidding war: Renault, Peugeot, Fiat, Alfa Romeo and Austin. Foreign collaboration between Dacia and Renault was established after the historical visit to Bucharest of the French President Charles de Gaulle in 1966 (National Romanian Archives Files 3064/40/1972; 3064/81/1972; 3064/108/1973). According to my interviews with industry representatives, Renault was chosen because it was owned by the French state, as private companies were viewed with suspicion by the Communist Party. In 1968, the State Planning Committee together with Renault and the French state negotiated and signed the 10-year licensing agreement (National Romanian Archives Files 3064/40/1972; 3064/81/1972; 3064/108/1973; 3064/26/1975; 3064/74/1975). The licensing agreement stipulated that initially the French side would supply the delivery of components and parts, while the Romanian side would conduct the assembly of components collections into automobiles. After this initial phase, the licensing agreement imposed the domestic assimilation of a range of components through the creation of internal production capacities. The Committee negotiated these industrial policies with the Ministry of Machinery Construction, and together the two institutions formulated the institutional measures to be implemented at the regional-level by the executive directors of the Automobile Industrial Complex Piteşti.

Due to technical and economic reasons, the offer made by Renault for the model Renault 12 was withdrawn – the model was in the testing phase and production was about to start soon in France in the second half of 1969. Instead, Renault allowed Dacia to begin assembly of an intermediary product (until the Renault 12 model would be ready for production). Initially, the Renault 16 model was chosen as the intermediary product, but in the end the Renault 8 model was selected, which was the cheaper and less technologically sophisticated option (Polytechnic University Bucharest, Faculty of Electric Engineering, 2010; Historia, 2017c).

On the 20th of August 1968, the production of Dacia 1100 began. On that historical day, Nicolae Ceaușescu left from Colibași (now the town of Mioveni) in Romania's first ever-manufactured automobile. The Dacia 1100 was a model under the license of the Renault 8 (Historia, 2017a). According to the licensing contract, all parts and components were supplied by the Renault and assembled in Romania at Colibași – so, technologically speaking, the car was a Renault 8. As mentioned above, the Dacia 1100 was regarded as an intermediary product in the ten-year contract signed with Renault. Key political players of the Communist regime attended the launch of the Dacia 1100: Ion Gheorghe Maurer, Ilie Verdeț, Constantin Drăgan and Manea Mănescu (Historia, 2017a).

Between 1968 and 1972, approximately 44,000 Dacia 1100 models were produced (Polytechnic University Bucharest, Faculty of Electric Engineering, 2010). During the 1960s-1970s, the price of a Dacia was approximately 70,000 Romanian Lei, or the equivalent of a one-bedroom apartment (Știrile ProTv, 2013; 4Tuning, 2017). Despite the steep price, demand was higher than the factory capacity. In 1970, a small frontal aesthetic modification was made to the model. During the same year, the Dacia 1100S was produced, however, in a very limited edition – the model had a stronger engine and was utilised by the police and in race-driving.

In August 1969, the Dacia 1300 model entered production under the license of the Renault 12. The model (a four-door sedan with a front-wheel drive) was showcased at the auto salons in Bucharest and Paris (Polytechnic University Bucharest, Faculty of Electric Engineering, 2010). Between 1970 and 1980, Dacia developed an entire portfolio of both automobiles and utility vehicles using the Dacia 1300 model as the basic concept. This portfolio includes: Dacia 1300L (“L” standing for “lux” as in “luxury”); Dacia 1300LS (“LS” standing for “lux super” as in “super luxury”) created specifically for central Communist Party members; in 1973 the station wagon model is launched; in 1975 the pick-up model Dacia 1302 is conceptualised (but it wasn't produced until 1982); and a van/patrol wagon, the Dacia D6, a copy of the Renault Estafette model was produced.⁵² At the 1979 auto show in Bucharest, the re-styled version of the Dacia 1300 model was presented – the Dacia 1310.⁵³ This was the first

⁵² Because the “Tudor Vladimirescu” Factory in Bucharest was producing a similar van, the production of the Dacia D6 was limited in order to avoid creating competition and internal market cannibalisation.

⁵³ The modifications consisted in two pairs of headlights, larger taillights, new bumpers and a new interior design. All of these changes were inspired from the re-styling made by Renault for their Renault 12 model in 1975.

model to appear after the licensing contract with Renault expired. During 1978-1979, the Dacia 1310 Sport model was also produced. In the following year, at the 1980 car exhibition the 'Braşovia' was presented – a coupé model based on the 1310 produced at a factory in Braşov. Also, in the early 1980s, Dacia produced the 2000 model which was based on the Renault 20 – this model was specifically produced for the Central Communist Party elite and was only available in black or blue (production was very limited). In 1981, the Central Party leadership gave its permission for the inception of production of a two-door model – the Dacia Sport 1410, which was manufactured for the privileged youth. This presentation of the portfolio of models produced by Dacia between 1969 and 1981 was synthesised using materials from Polytechnic University Bucharest, Faculty of Electric Engineering.

The period between 1966 and 1978 (under the license of the Renault 12) is characterised as one of progress and economic development for the Romanian automobile industry.

As mentioned above, in 1979 the ten-year accord between the French and Romanian government expired, and as a result, Dacia began producing automobiles based on indigenous technological capabilities and resources (Ştirile ProTv, 2013; Bursa, 2014). The termination of the ten-year licensing agreement with Renault was coupled with the autarchic institutional framework implemented pursued by the CC. Complete 'forced' assimilation and the termination of foreign collaboration proved a highly complex and overwhelming process that had numerous negative externalities, as I will discuss later in this chapter. The elimination of foreign resources triggered a continuous drop in the quality of automobiles manufactured at Colibaşi.

During the 1980s, after the withdrawal of Renault from Dacia, the Romanian state invested heavily in the development of domestic production capacities,⁵⁴ but unfortunately, the focus was on quantity rather than quality. The Dacia factory was not equipped with any of the modern technological resources available on the market. The factory would have needed to have access to foreign technological resources; instead, Dacia had to rely on its own internal production capacities. In the attempt to keep up with production capacity expansion but also to streamline its in-house activities, several activities at Dacia, including the manufacturing of specific components, were externalised to newly established enterprises from the horizontal industry at:

⁵⁴ National Romanian Archives Files 3294/7/1982; 3294/198/1982; 3294/268/1982; 3294/238/1982; 3294/48/1986; 3294/150/1986.

Topoloveni, Scornicești, Slatina, Drăgășani, Costești, Turda and Oradea (Știință&Tehnică, 2016).

According to Constantin Stroe (Știință&Tehnică, 2016), it became obvious throughout the Socialist regime that the Romanian auto sector could not keep up with the evolution of automobiles in Western economies; however, the technological quality of Romanian products was superior to those auto products from other CEE Socialist regimes such as Poland, the USSR and Yugoslavia (which were all benefitting from licenses).

In 1973, the State Planning Committee decided to further develop the Romanian auto industry via foreign collaboration by specialising in the production of a small-sized automobile with low-fuel consumption (National Romanian Archives File 3064/104/1976). In this sense, there were two failed attempts to establish collaborative arrangements: 1) the formation of a mixed enterprise with Renault in 1973, and 2) the formation of a mixed enterprise with Volkswagen in 1974 (Lupul Dacic, 2014; Historia, 2017a). Because neither Renault nor Volkswagen representatives expressed their interest to collaborate on the production of a low fuel consumption automobile, the State Planning Committee pursued the formation of an industrial and financial collaboration with Citroën. The way in which the Romanian state decided to further expand the Romanian auto industry during Socialism and the fact that it was the sole decision-maker when it came to selecting the ‘foreign’ partner to establish a mixed enterprise substantiates my argument of a very strong state controlling the institutional configuration of the national political economy.

It is important to highlight that Romanian-French collaboration had long-established legacies – prior to the licensing contracts present in the automobile sector, during the 1950s Romania had established licensing agreements with the French for household appliances (television sets), industrial computers and energy machinery (Lupul Dacic, 2014). This type of Romanian-French collaboration carried on throughout the rest of the Socialist regime: in 1980, for example, the Mixed Romanian-French Commission managed no less than 56 scientific and technical cooperative alliances in machinery construction, extractive industry, energy industry, construction and building materials, light industry, agriculture, stockbreeding, information technology, chemistry, biology, medicine, tourism and renewable energy sources (Historia, 2017a).

On the 17th of December 1976, the formation of the Mixed Romanian-French Enterprise Olcit was announced in Paris, followed by the announcement being made on the 30th of December 1976 in Bucharest (National Romanian Archives Files 3294/198/1982; 3294/268/1982; 3294/280/1983; 3294/238/1986). The joint stock value was 500 million Francs (the equivalent of 100 million US dollars) and the share split of the mixed enterprise was: the Romanian Socialist state 64 per cent (owned by the state-owned enterprises: the Automobile Industrial Complex Pitești and the Exterior Commerce Enterprise “Autodacia”) and Citroën 36 per cent (General Director Liviu Tănăsescu, 2016). The contract of incorporation of the Mixed Romanian-French Enterprise Olcit was signed by the State Planning Committee and George Taylor (President of the Citroën Board of Directors), together with other dominant elites from the political sphere: Vice-Presidents Gheorghe Oprea and Ion Pășan (who was also Minister of Exterior Commerce and International Economic Cooperation), Ioan Avram (Ministry of Machinery Construction), Nicolae Ionescu (Secretary of State at the Ministry of Exterior Commerce and International Economic Cooperation) and Raoul Delaye (Ambassador of France in Bucharest) (National Romanian Archives File 3064/104/1976). The financing of the ‘Olcit’ deal was done through governmental securities issued by the Romanian government (through the Romanian Bank of Exterior Commerce) and loans issued by 13 French banks (coordinated by the French-Romanian Bank). Furthermore, the State Planning Committee in conjunction with the Ministry of Machinery Construction oversaw and managed the process of integration and the development of internal production capacities. According to the contract, the Olcit enterprise was supposed to assimilate 49 per cent of technological capacities, the domestic horizontal industry was in charge of integrating 23 per cent of production capacities, with the remaining 28 per cent being supplied by Citroën (General Director Liviu Tănăsescu, 2016). The Committee and the Ministry of Machinery Construction formulated and transferred these institutional measures to be implemented at the regional-level by the executive directors of the Automobile Industrial Complex Pitești.

Prime Minister Manea Mănescu welcomed at Bucharest a delegation of Citroën senior executives together with a group of bankers led by the Credit Lyonnais Bank Governor (Claude Pierre-Bresolette) and the General Director of the French Bank of Exterior Commerce (François Giscard d’Estaung). The official visit ended with the approval of the financing for the Olcit Mixed Enterprise. The ceremony was also attended by the

Romanian Bank of Exterior Commerce Governor (Vasile Voloşeniuc). The licensing agreement with Citroën was for the production of two models:

- 1) Citroën Visa Spécial – known in Romania as the Olcit Special, and
- 2) Citroën Visa Club – known in Romania as the Olcit Club.

In 1979, the opening of the Olcit factory in Craiova should have taken place; however, the actual assembly of the first automobile took place in 1981, and it was only in 1982 that mass production commenced. Planned production was set at 30,000 units in 1979, 80,000 units in 1980 and 130,000 units in 1981 respectively (National Romanian Archives File 3294/280/1983). There were, however, massive delays and planned production targets were not met. This led to the initiation of discussions by the French side with the leading authorities in Bucharest regarding the state of the Romanian-French investment. A series of meetings took place:

- 1) on the 5th of March 1980 – a meeting between the President of the Board of Directors of Citroën (Jacques Lombard), the Romanian Prime Minister (Ilie Verdeț) and Nicolae Ceaușescu (National Romanian Archives File 3294/163/1981); and,
- 2) on the 25th of July 1980 – Nicolae Ceaușescu visited the Citroën factory. This visit also facilitated the dialogue between the French side and Ioan Avram (Minister of Machinery Construction), Cornel Burtică (Vice Prime-Minister of Government and Minister of Exterior Commerce and International Economic Cooperation), Ștefan Andrei (Minister of Foreign Affairs) and presidential counsellor Vasile Pungan (National Romanian Archives File 3294/163/1981).

There were two major factors that resulted in Olcit not being able to honour the terms of the licensing contract. Firstly, the Romanian factory couldn't produce and supply on a continuous basis the agreed 49 per cent of parts and components for the production and assembly of automobiles. Secondly, Ceaușescu blocked the facilitation of certain loans necessary for the importation of components and parts that were proposed by the French. This measure was adopted in line with the central institutional framework of technological integration and assimilation, and the reduction of imports in the form of components, equipment, machinery and licenses. This resulted in the inability of Olcit to meet the production plan and pre-established quality standards. For example, the 652

cm³ engine utilised on the Olcit Special and Olcit Club 11R had a larger fuel consumption than what was stated in the initial design specifications, due to modifications in the aerodynamic coefficient (National Romanian Archives File 3294/198/1982). In contrast, automobiles produced in France using the same engine met pre-established specifications. The same problem occurred with the 1129cm³ and 1299 cm³ engines utilised on the Olcit Club 11RL model (production 1984-1988) and the Olcit Club 12TRS respectively (National Romanian Archives File 3294/238/1986).

Because the Romanians breached contract terms at the beginning of the 1980s, great financial problems and political tensions ensued (Lupul Dacic, 2014). A series of discussions and negotiations were facilitated, in order to improve the financial situation of the Olcit Mixed Enterprise.

“A delegation, led by Ioan Avram (Minister of Automobile Construction Industry), was sent to France in order to negotiate and discuss ways of improving the situation at Olcit with the French authorities, the executive team of Citroën and the senior executives from various financial institutions and banks” (National Romanian Archives File 3294/268/1982, 1982).

The French side proposed lay-offs at the Olcit factory in Craiova, as well as the reduction of production capacity – measures that were both rejected by the central authorities in Bucharest. Hence, the cooperation between the Romanian Socialist state and Citroën was interrupted for a year and a half. During that timeframe, Olcit registered very low production levels: 10,000 units were assembled per annum versus the 120,000 units per annum as set out in the plan (National Romanian Archives File 3294/268/1982).

Until 1981, France had a trade surplus with Romania, due to the fact that Romania imported technological capabilities at very high prices for many years (Historia, 2017a). However, from 1981 onwards, trade balance turned in favour of Romania – this took place simultaneously with the worsening of Romanian-French political relations. In the 1970s, Romania had difficulties in exporting products to France due to high customs duties (15 to 24 per cent of product value). As a result, Ceaușescu came up with the initiative to establish a Romanian-French bank to finance joint-projects, raise the share of Romanian exports on the French market and reduce the trade deficit. As the volume of bilateral exchanges reduced drastically towards the mid-1980s and France started to

accumulate a trade deficit, Romanian-French relations deteriorated further. Simultaneously, at a supranational level, France stopped supporting Romania in renewing its accords (dating back from the 1970s) with the European Economic Community, as well as its agreements with the Common Market (Historia, 2017a).

Romanian-French cooperation was resumed in 1984, when Romanian specialists managed to rectify the main quality and reliability problems that were highlighted by the French. However, conflict and tension re-emerged when the Romanian side installed parts and components licensed for Dacia automobiles on the Olcit Club 11RM model without having authorisation (Romanian Car, 2014). To resolve the newly arisen problems, Aurel Duma (Secretary of State at the Ministry of Foreign Affairs) had a discussion with the French Ambassador Michael Rougagnou in Bucharest on the 21st of February 1986. Aurel Duma proposed that the authorities in Paris analyse the possibility of reducing the customs duties for the Citroën Axel 11R model, which was sold in France. This issue was later resumed on the 18th of April 1986 in Paris by the Minister Counsellor Valeriu Tudor in a meeting with Deputy Director Régis de Bélenet from the Ministry of Foreign Affairs. Gheorghe Crăiniceanu (Vice-President of the Romanian Bank of Exterior Commerce) discussed the same issue with the President of the French Bank of Exterior Commerce on the 23rd of September 1986. Instead of reaching some form of compromise, another conflict arose – more specifically, the Romanian authorities wanted to be backed up by the French state in convincing Jacques Calvet (President of PSA Peugeot Citroën Group) to accept the escalation of the sales price of the Citroën Axel 11R model, and furthermore, to take over half of the production at Craiova (as had been agreed in the contract signed in December 1976) (Lupul Dacic, 2014). The President of the French Bank of Exterior Commerce pointed out that the Olcit venture had no financial feasibility.

Although the Olcit factory had a maximum capacity per annum of 130,000 units, between 1984 and 1988 only 60,184 units were produced (Romanian Car, 2014).

“During the period 24th- 28th of November 1986 a delegation formed of representatives of the Ministry of Automobile Construction, Ministry of Finance, Ministry of Exterior Commerce and International Economic Cooperation, and Olcit Mixed Enterprise carried out a series of talks in Paris in order to improve the financial and economic situation at Olcit Mixed Enterprise [...] The Romanian side wants to continue the cooperation with

Citroën in order for Olcit to fulfil the production levels and targets that were pre-established in the contract [...] so that the enterprise becomes a model of advantageous economic cooperation as was set out in the initial contract signed in 1976. The Romanian delegation claimed that the primary concern is to eliminate losses and to undertake a viable economic activity, and to do so the reduction of production costs has to be achieved at an overall enterprise level” (National Romanian Archives File 3294/238/1986).

Olcit continued to have financial difficulties all throughout the second half of the 1980s. There were continued efforts to address these issues; however, none of the solutions proposed proved successful. Unlike its successful ‘star’ sibling Dacia, Olcit proved to be a more problematic business venture.

Technological Deficiencies of the Romanian Auto Sector during the Socialist Era

My investigation of the archival materials has revealed that throughout the Socialist period the auto sector was characterised by the inability to realise the production plan imposed by the CC, low-quality of manufactured products, and an inadequate horizontal industry that could not ensure the timely and sufficient delivery of high-quality machinery, tools, replacement parts and materials.⁵⁵ These findings were corroborated with the data emanating from the ten interviews conducted with industry representatives (interview codes A_1 to A_10) and one interview conducted with an industry specialist (interview code S_6). I shall elaborate on my findings in greater detail below.

The analysis of archival materials and semi-structured interviews has indicated that quite often these issues defining the industry were linked. According to a decree produced by the State Planning Committee and Ministry of Machinery Construction, the production plan of Olcit was not met in 1981 due to recorded delays in the supporting industries related to production capacities in the chemical industry, the machinery industry and the light industries (National Romanian Archives File 3294/163/1981). Similarly, in the transcript of a working session with the senior officials of the automobile sector, the General Director of Dacia (Nicolae Matea) highlighted that production volume wasn’t met in 1982 due to the fact that the horizontal industry and the R&D institutes could not produce components and materials at the required

⁵⁵ National Romanian Archives Files 3294/163/1981; 3294/7/1982; 3294/280/1983; 3294/48/1986; 3354/46/1981; 3354/3/1987.

technical standards (National Romanian Archives File 3294/7/1982). According to Nicolae Matea (National Romanian Archives File 3294/7/1982, 14):

“[...] Dacia has been contracted to produce 19,886 automobiles, out of which 12,045 automobiles are intended for Western markets, [...] we have only realised 2,649 automobiles out of the total (22 per cent). [...] The problem is regarding the quality of finishes, more precisely the inside and outside appearance of the automobile. We [our industries] are dependent on a range of materials that we cannot produce and we haven't developed any solutions. For example, the problem of our steering wheel production. Our Industrial Complex needs to utilise an imported cellidor material.”

In the same session, the Head of the CC Nicolae Ceaușescu drew attention to the fact that several export contracts were terminated due to existing quality issues at both Dacia and Olcit (National Romanian Archives File 3294/7/1982, 71).

“I have noticed that it has been proposed to expand export levels at Dacia. We need to revise export levels at other products as well. [...] We need to revise export levels at Olcit and increase our quotas. However, we have the issue of quality. We have suffered a lot due to the issue of poor quality levels. Of course, repairs and servicing has also been problematic, but our primary issue has been quality. We have to make changes, so that our entire production meets export quality levels. All 90,000 Dacia automobiles should be suitable for export. I agree to 5-6 per cent failing quality standards, those we can improve and sell internally, but out of 90,000 units, 80,000 units at least need to meet export quality standards. The problem [of quality] is an older issue of ours. We exported in 1979 21,000 units out of a total production of 50,000+, in 1980 we reduced exports to 17,000 units and in 1981 exports were further reduced to 15,000 units. Instead of expanding exports as our production levels have risen, we have reduced exports and increased automobile imports.”

These issues related to unachieved production volume, low production quality and the insufficiencies of the horizontal industry were corroborated with: 1) points raised in technical-economic studies produced in 1983, 1986 and 1989 (National Romanian Archives Files 3294/280/1983; 3294/48/1986; 3294/238/1986; 3294/110/1989), and 2)

the emerging themes in the minutes of two working sessions in 1988 with the key players of the CC and the Ministry of Machinery Construction (National Romanian Archives File 3294/154/1988).

Other institutional deficiencies permeating the sector during the Socialist period include: delayed investments to expand capacities in the horizontal industry, the non-correlation of the number of personnel with the realisation of physical production which resulted in periods when the enterprises in the industry were overstaffed or understaffed, and inferior internal processes of upgrading and innovation (National Romanian Archives Files 3294/309/1986; 3294/71/1987; 3354/46/1981; 3354/3/1987).

Industrial Policy in the Romanian Auto Sector during the Socialist Era: Dependency on Technological Imports and Foreign Collaboration

In order to compensate for these inappropriate technological capabilities and weakly developed internal production capacities, the dominant elites facilitated the creation of an import-oriented institutional framework, which entailed a high dependency on licenses and technological imports. This is similar to the institutional trajectory pursued by the dominant elites in the coal mining sector.

The institutional structure of the industry was based on the formation of licensing agreements – the acquisition of technical documentation by the State Planning Committee from foreign French automobile players. After the creation of the industry, growth and development continued to exhibit a high dependency on technological imports and foreign collaboration that was present across both enterprises during the Socialist period until 1973 at Dacia and 1982 at Olcit respectively.⁵⁶ A very good case that illustrates the significant degree of dependency of Romanian auto makers on foreign imports was found in the Memo regarding the operational difficulties in 1982-1983 of the Mixed Enterprise Olcit Craiova (National Romanian Archives File 3294/198/1982). According to the Memo:

“To ensure the production plan of 85,000 automobiles in 1982-1983 it is necessary to import a total of 30,960 collections [of components] by the end of the year. [...] The acquisition of technological resources from Citroën worth 3.3 million Francs complementary to the Romanian technological resources (worth 3.9 million Francs) necessary for the modifications made

⁵⁶ National Romanian Archives Files 3064/40/1972; 3064/81/1972; 3064/108/1973; 3064/26/1975; 3064/74/1975; 3064/104/1976; 3294/163/1981; 3294/7/1982; 3294/198/1982; 3294/268/1982.

to Olcit bodywork production lines and bodywork accessories [...]. Sending a commission of Olcit technicians to Citroën for qualification in design-related activities [...].”

Another example that illustrates this dependency on foreign technology is the importation of complete knock down (CKD) kits. In an interview with a former senior executive director at Dacia, it was highlighted that the realisation of internal production was dependent on CKD kit imports from Renault, which complemented the indigenous technological means. He pointed out that the technological transfer was a contractual clause negotiated by the State Planning Committee and Ministry of Machinery Construction upon the signing of the licensing agreement with Renault. Similarly, in a technical-economic report produced 1982, the State Planning Committee authorised the order of CKD kits (30,960 kits in total) necessary for the realisation of the 1982-1983 Olcit production plan (National Romanian Archives File 3294/198/1982). In the minutes from a working session, the Head of the State Planning Committee, the Minister of Machinery Construction and senior officials from the other supporting ministries discussed the control and management of imported replacement parts, electrical tools, robots, automation machinery and core components from leading Western suppliers such as: Widia, Sandwick, Northon, and Feldmuhle (National Romanian Archives File 3294/268/1982). It has emerged from both archival materials and interviews that under the direction of the State Planning Committee in conjunction with the Ministry of Labour and the Ministry of Machinery Construction, pools of engineers and technical specialists from both Dacia and Olcit went through a process of re-qualification by being sent abroad to carry off-site training at Renault and Citroën respectively (National Romanian Archives File 3294/198/1982). Furthermore, a commission of foreign specialists from Renault and Citroën undertook the internal qualification of engineers through on-site training programmes at Dacia and Olcit respectively. Hence, one can argue that the implementation of this industrial policy based on the importation of technological resources and foreign sets of skills triggered a process of industrial upgrading and the institutional development of the sector.

The narrative emerging from my analysis of archival materials and semi-structured interviews reinforces the dependency of car manufacturing on licenses, technology imports and foreign collaboration. The processes of industrial upgrading and technological evolution were highly contingent on the functioning of this open, import-dependent economic paradigm that facilitated the creation of internal production

capacities based on new, foreign technological resources. I have corroborated the findings from the archival materials with the findings from the interviews in order to highlight who are the drivers behind the creation of this import-oriented institutional framework. The drivers behind the implementation of this institutional framework are the dominant elites – the CC, the State Planning Committee, the Ministry of Machinery Construction and the ministries supporting and collaborating with the Ministry of Machinery Construction. There was a wide consensus among the senior industry representatives that I interviewed that the sector had inadequate technological resources and that in order to achieve technological upgrade and develop internal production capacities, there was a need for foreign collaboration and the assimilation of foreign technology into the configuration of the industrial order.⁵⁷ I argue that through the implementation of this import-oriented model, the dominant elites introduced a new institutional paradigm based on the interaction with international forces. This contradicts the Socialist rhetorical devices that reinforced inward orientation and the absence of foreign influence. Thus, by transforming the institutional structure of auto in such a way, the dominant elites triggered institutional change in the industrial order. Moreover, I argue that these early foreign interactions and collaborative arrangements facilitated by representatives of foreign capital became the bedrock of institutional continuity, paving the way for future interaction with international forces within the institutional configuration of the auto sector.

Industrial Policy in the Romanian Auto Sector during the Socialist Era: Import Substitution Industrialisation and the Creation of an Autarchic System

My analysis of archival materials and interviews with ten industry representatives (interview codes A_1 to A_10) and one industry specialist (interview code S_6) revealed that starting with 1973 at Dacia and 1982 at Olcit respectively, the dominant elites re-shifted the orientation of the institutional configuration of the industrial order by reducing foreign collaboration and minimising the dependency on technological imports. There was a massive shift in terms of the industrial policy pursued by the CC and implemented across the institutional configuration of auto. This is similar to the industrial policy programme pursued in the coal mining sector.

Comprehensive evidence was unearthed in a variety of historical materials regarding this industrial policy shift. According to a technical report produced by the Ministry of

⁵⁷ Interviews: A_1, A_3, A_4, A_5, A_6, A_8, A_9, A_10.

Exterior Commerce and International Economic Cooperation, the State Planning Committee and the Central Statistical Department, rigorous control was exerted and aimed to reduce the imports of tools and machinery (National Romanian Archives File 3064/99/1973). “The Ministry of Exterior Commerce and International Economic Cooperation has the role to pursue the continued reduction of imports [...] primarily through the intensification of assimilation and the domestic production of those materials and products which constitute as imports of the departmental proportion [...] a high degree of importance will be awarded to analysing those products that have an unsatisfactory degree of integration” (National Romanian Archives File 3064/99/1973, 45-46). The logic behind this industrial policy was that technological absorption and integration would take place together with the development of domestic capacities, hence eliminating the need for imports. This shift in industrial policy was corroborated by my ten industry representatives (interview codes A_1 to A_10) and one industry specialist (interview code S_6). According to a former senior director at Dacia (interview code A_3):

“Assimilation played the role of enabling the domestic production of components necessary for the manufacturing of automobiles [...] We together with Renault designed an assimilation programme based on stages, with each stage achieving a higher percentage of integration and reducing the level of import necessities.”

In the transcript of a meeting with members of the CC, the State Planning Committee, the Ministry of Machinery Construction and the supporting ministries, Nicolae Ceaușescu emphasized that “every industrial enterprise must understand that we cannot import any longer over the level set out in the plan, that we must take steps to accomplish the compulsory integration, we have to speed it [the process of integration] up and force it, even beyond what is established” (National Romanian Archives File 3294/7/1982, 71). The dominant elites accelerated the process of technological import reduction and the degree of assimilation.⁵⁸ This narrative of intensification of inward orientation and reliance on internal production capacities came out of my interviews with industry representatives as well. According to the former Minister of Machinery Construction (interview code A_10), the degree of assimilation at Dacia was increased

⁵⁸ National Romanian Archives Files 3064/108/1973; 3064/26/1975; 3064/74/1975; 3064/104/1976; 3294/280/1983; 3294/390/1984; 3294/4/1986; 3294/150/1986; 3294/238/1986; 3294/309/1986; 3294/53/1987.

from 75 per cent in 1972 to 83 per cent in 1976 to 99 per cent by 1988. Similarly, a former executive director at Olcit and later Daewoo (interview code A_8) highlighted that although the licensing agreement with Citroën stipulated 72 per cent domestic technological integration, the Ministry of Exterior Commerce and International Economic Cooperation and the State Planning Committee sought to increase the degree of assimilation to 85 per cent by the end of 1986 (National Romanian Archives File 3294/238/1986; General Director Liviu Tănăsescu, 2016).

The decision to reduce imports and to minimise dependency on foreign technology was made at the top of the elite hierarchy – the CC.⁵⁹ The CC transmitted these industrial policy measures to the State Planning Committee, which together with the Ministry of Machinery Construction and other supporting ministries, were in charge of implementing these institutional measures. Thus, I argue that the dominant elites were the principal drivers behind this re-orientation of the internal dynamics of auto, and by modifying the institutional framework of the industrial order from an externally-dependent, import-oriented model to an inward- and export-oriented model the dominant elites exerted institutional change.

The historical materials and interviews revealed that the process of technological integration proved to be very difficult – this was due to the fact that the rapid elimination of technological imports resulted in the inability of the auto industry along with the other supporting industries to develop the necessary internal production capacities to compensate for loss of foreign technological resources. The abrupt reduction in imports resulted in significantly lower volumes of materials and components, as well as a massive drop in the quality of parts and machinery necessary for the production of Dacia and Olcit. According to a former executive director at Olcit (later Daewoo) (interview code A_8):

“The idea is that there was a great need for imports; however, with the assimilation programme imports were severely reduced. So what did we do? We tried to replace these imports as much as possible [...] This was achieved only on a small scale and so, we started to experience a shortage of components in the horizontal industry. The horizontal industry could no longer deliver the volumes we were asking for! They [the horizontal industry] received very little funds and could no longer meet our demands.

⁵⁹ Interviews: A_3, A_4, A_5, A_6, A_8, A_9, A_10, S_6.

And this was the primary reason why the licensing agreement with Citroën collapsed.”

Furthermore, a former executive director at Dacia emphasized the decreasing quality standards (interview code A_5):

“There was a massive reduction in imports and investments, so basically everything that led to progress was cut out. In this context, the main slogan was “Produce Everything in Romania!” However, no country can produce absolutely everything internally, and in the case of auto international collaboration is necessary. This direction resulted in the massive decrease in quality of the [Dacia] automobile. I will tell you something, during 86-87 we had serious quality complaints from the countries we exported to. The Enterprise of Exterior Commerce together with the Automobile Industrial Complex made a request to the CC to import components totalling 160 US dollars per car that would significantly improve quality levels and resolve quality complaints. Well, this request was not granted even though 160 US dollars per car was nothing.”

Alongside the gradual reduction of technology imports, the import-oriented model was defined by the gradual elimination of foreign collaboration with the two foreign players – Renault and Citroën. Based on archival materials, the licensing agreement with Renault was terminated in 1978 (National Romanian Archives Files 3294/163/1981; 3354/46/1981), whereas Citroën began to express its intention to exit the mixed enterprise agreement in 1986, with the final withdrawal from the agreement taking place in 1991 (National Romanian Archives Files 3294/238/1986; 3294/154/1988; *Gazeta de Informații*, 2017).⁶⁰ In light of these institutional features, the argument that I am advancing is that by eliminating technological imports and foreign collaboration, the dominant elites obstructed technological upgrading and diversification. As my interviewee pointed out above (interview code A_5), “[...] basically everything that led to progress was cut out”. A former senior director at Dacia (interview code A_6) illustrated the stifling of technological upgrading and industrial progress further:

⁶⁰ The termination of the licensing agreement with Renault in 1978 emerged during the interviews A_1 to A_6. Whereas, the tensions between Olcit and Citroën along with Citroën’s intention to leave the mixed enterprise agreement came out of interviews A_7 to A_9.

“These guys, the ones from the Committee [‘CC’] and from Planning [State Planning Committee], they cut everything. They killed us! We couldn’t do anything. I couldn’t buy anything. We had these performance standards that we had to meet, well how could anyone meet them like this? When you weren’t allowed anything.”

Instead, the institutional context shaped by the dominant elites was one characterised by autarchic production capacities and the utilisation of outdated technological reserves and inefficient internal production capacities. The investigation of archival materials and interviews revealed that this insular approach had a negative impact on the structure of the industry.

Structural Problems of the Romanian Auto Sector before Privatisation

A state of economic chaos was installed post-Revolution (Cernat, 2006). The early 1990s were a period characterised by a general lack of capital, which in turn resulted in a lack of investments at Dacia, Olcit and the entire array of supporting industries – a fact that prevented technological modernisation and the assimilation of newly developed and complex technological resources (Constantin Stroe in Știință&Tehnică, 2016). Other structural problems of the Romanian auto sector included: a used industrial apparatus, an outdated array of products, the absence of a customer culture, a fragile financial structure, insufficient financial resources, limited innovative capability and an outdated supplier network (Bursa, 2014; Ziarul Financiar, 2014). The Government attempted to artificially stimulate the industry in the early 1990s; however, these domestic institutional measures proved to be unsuccessful (Cernat, 2006; Birch and Mykhnenko, 2009; Constantin Stroe in Știință&Tehnică, 2016).

According to my interviews with industry representatives (interview codes A_1 to A_10) and an industry specialist (interview code S_6), the key players behind the structure and direction of the sector realised that the only way to save the industrial order from bankruptcy was through foreign collaboration. According to a current executive director at Dacia (interview code A_1):

“Mr. Stroe [the former General Director] knew that the only way to save ourselves was for us to be adopted by a foreign family, otherwise we would have been goners.”

Furthermore, according to the consultant in industrial relations and industry specialist that I spoke to (interview code S_6):

“There was no doubt that the industry was dying and if it wasn’t for foreign capital we wouldn’t have an auto industry in Romania today. They [Dacia management] realised this and as I have been told time and time again – Stroe, the patriarchal father, started searching for a foreign partner that Dacia could merge with. It was the same at Olcit, without foreign capital it wouldn’t have survived.”

Hence, both Dacia and Olcit were looking for a foreign ‘family’ that was interested to adopt them. The central institutional player who led the privatisation discussions and negotiations was the State Property Fund. During the privatisation negotiations with the foreign auto players – Renault and Daewoo – the Fund had very little bargaining power vis-à-vis foreign elites. There is an obvious discrepancy in the degree of power and the positionality between the foreign auto players and the Romanian institutional players. This links to my previous argument – more precisely, the fact that at the time of privatisation foreign capital became the primary driver of the institutional configuration of the industry, whereas domestic elites took a more ‘backseat’ role within the existing power structure. Despite all the efforts made by the Fund and the Ministry of Finance, Renault and Daewoo managed to impose all of their conditions – more precisely, a very low selling price for the plant and a comprehensive package of fiscal incentives. One of the former executive directors at Dacia illustrated very well the limited bargaining power of the Romanian players vis-à-vis Renault and Ford, and how the foreign car manufacturers succeeded to impose all of their conditions (interview code A_3):

“Financial incentives were awarded for an extended period. This is how it’s done. It was the same for Ford. Until Tăriceanu [Minister of Industry] didn’t give a certain percentage and a certain number of years of tax deductions and other exemptions there was no deal. This is how it was with Renault, this is how it was with Ford. There was an entire list of requests that we had to fulfil.”

Failure to sign a privatisation agreement meant the ‘death’ of Dacia and Olcit, which would have also translated into devastating effects on the horizontal industries affiliated

to Romanian auto. The foreign players – Renault, Daewoo and Ford – were very much aware of what the consequences were if Dacia and Olcit went into bankruptcy.

The Effects of FDI Displacement in the Romanian Auto Sector (mid 1990s-2010s)

In order to secure the foreign capital investments, the Romanian state offered subsidies in all three instances of FDI – Daewoo, Renault and Ford. It has emerged from my interviews that the domestic elites negotiated from an inferior position of power and that the terms of the negotiation process were dictated by the MNC players.⁶¹ More specifically, the representatives of MNCs stated their terms and in order to secure the investments, domestic elites had to accept them and provide the appropriate fiscal incentives.

Renault obtained fiscal and customs incentives for a period of five years, equivalent to an interest-free loan of 150 million US dollars per year, which by derogating five laws in force imposed the adoption of a governmental emergency ordinance (Bursa, 2014). The incentive package given to Renault included the following items:

- 1) deferment of value added tax payments in relation to internal market automobile sales from own production for a period of three years;
- 2) exemption of taxes (custom duties and value added tax) on imports of technological equipment, machinery and tools necessary for retrofitting operations;
- 3) exemption of income tax for a period of five years starting from the first financial transaction that registered a profit but no longer than eight years;
- 4) exemption of value added tax on goods acquired in Romania, which are depreciable assets;
- 5) the allowance of a 65 day difference from the foreseen deadline according to law 118/1996, in relation to the establishing and utilisation of the Public Road Special Fund for the transfer of the 5 per cent quota of the value of manufactured automobiles, for an established period of five years starting from the date of the full payment of the share price; and,
- 6) the possibility of importing a certain quota of Renault automobiles in Romania exempt from custom duties.

⁶¹ Interviews: A_3, A_5, A_7, A_8, A_10, S_6.

According to Ordinance no. 109/2008, the government set conditions for the production of 810,000 vehicles and 1.5 million engines at Ford Craiova between the 1st of January 2013 and 31st of December 2017 in exchange for obtaining 75 million Euros from the Ministry of Public Finance (Gazeta de Sud, 2016). A study compiled by the European Institute in Romania confirmed that the state offered Daewoo financial subsidies between 1994 and 2001; however, it did not disclose the value and composition of the incentive package (2004). I was unable to find this information, as my interviewees refused to answer this question and both the industry and business press fail to elaborate on this matter.

Based on my interviews with industry representatives and my analysis of the business press, foreign capital displacement triggered an extensive process of technological upgrading, knowledge transfer and the re-organisation of other value chain segments.⁶² Major investments were made in order to introduce the new production lines, to create the planned production capacities, to re-technologise and re-organise the primary production sections, and to supply and install the necessary construction machinery and electronic tools. New standards of quality and productivity were introduced that displaced the existing indigenous work model. Furthermore, knowledge transfer was carried out through extensive training programmes, with hundreds of engineers being sent abroad for re-qualification. Additionally, foreign specialists were brought in order to carry in-house training schemes and re-education programmes. Foreign elites also succeeded in transforming the structure of the distribution system, and in introducing a new model of servicing and repairs throughout the entire country. These are all constitutive elements within a story of institutional change influenced by foreign elites via the implementation of new industrial policy, the transfer of technology, and the implementation of new models and standards within the auto industrial order.

In order to illustrate how foreign elites influenced the re-organisation of industry configuration, the process of technological upgrading and the transfer of knowledge, I will utilise Daewoo as my primary case study. After FDI displacement, Daewoo made a series of initial investments at its subsidiary in Craiova, in order to supply and install the main plant machinery and equipment. According to an internal company document provided by one of my interviewees, the total cost of the investment made by Daewoo in 1995-1996 was 472.34 million US dollars (General Director Liviu Tănăsescu, 2016).

⁶² Interviews: A_1, A_2, A_3, A_4, A_5, A_6, A_7, A_8, A_9, A_10. Other sources: Știrile ProTv, 2013; Ziarul Financiar, 2014; Gazeta de Informații, 2017.

The largest part of the investment was directed towards the re-technologisation of the engine and gearbox sections, which accounted for 372 million US dollars. Furthermore, a total of 880 employees were sent to South Korea for re-qualification – four sets of skilled workers were sent throughout 1995 for 3-months training schemes, as well as 129 specialists from all departments of the plant. As far as the distribution system is concerned, Daewoo created a dealership structure, having 43 dealerships spread across the country. A servicing and repairs activity was introduced to complement the sales and distribution network – with 34 servicing points being established across different counties, out of which 15 offered non-stop servicing.

Table 6.2 Investments in Machinery and Equipment made by Daewoo at Craiova between 1995 and 1996

Machinery by Section	Value of Investment (US Dollars)
Milling	7,500,000
Bodywork	23,000,000
Painting	13,800,000
General Fitting	25,440,000
Engine	164,000,000
Gearbox	208,000,000
Other Parts	20,600,000
SUBTOTAL	462,340,000
Installation Procedures	10,000,000
TOTAL COST OF INVESTMENT	472,340,000

Source: General Director Liviu Tănăsescu, 2016.

Lastly, I analyse the secondary effects of FDI displacement, more precisely the development of the components industry. The presence of FDI within the institutional configuration of the auto sector resulted in positive spill-over effects on the growth and diversification of the auto components industry (Pavlinek, 2004; Javorcik and Spătareanu, 2005; Dudian, 2011). It was highlighted in several of my interviews with senior industry executives that the presence of two large international car manufacturers – Renault and Daewoo, which would later be taken over by Ford – triggered the institutional growth of the components industry which started to occur from the early 2000s onwards.⁶³ The institutional outcome that followed was that multiple components producers relocated to Romania in order to be close to Renault, Daewoo and later Ford (ACAROM, 2015).

⁶³ Interviews: A_1, A_2, A_5, A_9, A_10.

Furthermore, I want to highlight that as with the production of automobiles, the components industry in Romania is controlled by large foreign investors. Ban (2013) and Dudian (2011) draw attention to the formation of a range of automotive-oriented economic clusters within the Romanian national variety that are linked to the overall European auto production network. According to the Association of Automobile Constructors Romania or ACAROM (2015), international components manufacturers, including Continental, Bosch, Delphi, Daimler, Hella, Pirelli, Dräxlmaier, Schaeffler and Yazaki, have set up greenfield operations primarily in Western Romania (Timișoara and Arad components-based clusters) and Central Romania (Cluj, Sibiu, Brașov, Argeș and Olt components-based clusters). ACAROM emphasizes that the players dominating components production engage not only in the manufacturing of low- and medium-value added components (tires, wiring, laminates, ball bearings, planet wheels, tappets, timing belts, airbag systems, seat belts etc.) but also in the production of capital-intensive, high-skill dependent, high-end components (gear boxes, advanced microelectronics, robotics, optical solutions, transmission systems, engines etc) – with some having established R&D facilities: Continental, Bosch, Hella, Dräxlmaier, Schaeffler and Yazaki.

Based on Radosevic and Rozeik (2005), I argue that foreign capital has had important spill-over effects on the restructuring of the components industry. Similar to the auto industry, the presence of foreign capital orchestrated an extensive process of technological upgrading, knowledge transfer and the re-organisation of the Romanian components industry (Constantin Stroe in Știință&Tehnică). According to a former executive director at Dacia (interview code A_3), some of the domestic components suppliers established during the Socialist regime, which were plagued by outdated technological resources and insufficient capital, were acquired and integrated into the major foreign components producers that entered the Romanian market, who sought to take advantage of their pool of skilled labour and long established relations with Dacia or Olcit. Furthermore, he highlights that major investments were made in order to re-technologise and re-organise these existing components suppliers, which were behind the standards of quality and productivity required in the Western markets.

The presence of foreign components manufacturers also influenced an extensive process of knowledge transfer through the organisation of training and re-qualification programmes for labour specialised in auto in the Pitești and Craiova areas (interview codes A_4, A_5). According to a former senior director at Dacia (interview code A_5),

the integration of foreign components suppliers within the Romanian market resulted in thousands of engineers and technicians participating in training schemes organised by foreign specialists, with some hundreds of engineers being sent abroad for more extensive and specialised re-education programmes. Additionally, a current executive director at Dacia (interview code A_1) and a former executive director at Olcit/Daewoo (interview code A_9) argued that the presence of foreign components suppliers has had massive transformative effects on the infrastructure of the area that they are located in, financing and driving the creation of transportation links (roads, rail), building massive storage facilities and stimulating the development of other supporting industries that feed into the components industry. Thus, my argument is that similar to Romanian car manufacturing, the Romanian components industry has undergone a process of institutional transformation influenced by the representatives of foreign capital via the creation of new production capacities, the process of technological upgrading, the transfer of knowledge, and the implementation of new models and standards.

Table 6.3 Romanian Car Components Industry: Sample Overview of Players					
MNC	Activity	Location	R&D Centre	Size of Subsidiary in 2017 by	
				Employees	Revenue (mn €)
Continental	Tires, tubing, air conditioning systems, chasses, driving belts, drive trains, power-assisted steering, silicon hosing	Timișoara (W), Sibiu (C), Brașov (C), Carei (N-W), Năbad (W), Iași (N-E)	Timișoara, Sibiu, Brașov, Carei, Năbad, Iași	19,700	2,660
Bosch	Advanced driver assistance systems, energy management systems, chassis control speed sensors	Cluj (C), Blaj (C)	Cluj	6,500	332
Delphi	Electrical/electronic distribution systems, wiring harnesses, interiors, small harnesses, diesel engine management systems	Ineu (W), Sânnicolau Mare (W), Moldova Nouă (S-W), Iași (N-E), Bucharest	n.a.	10,000	631.7*
Daimler	Transmission systems, 5-speed, 7-speed and 9-speed gearboxes, steering racks and steering gear, high pressure piping, cog-wheels, crankshafts	Cugir (C), Sebeș (C)	n.a.	1,800	1,520
Hella	Electronic control modules, engine actuators, vacuum pumps, accelerator pedals, energy control modules	Timișoara (W), Ghiroda (W), Lugoj (W), Arad (W), Craiova (S)	Timișoara, Craiova	3,684	587.03
Pirelli	Tires	Slatina (S)	No R&D centre but partnership with University of Bucharest and University of Craiova	3,053	483.96
Dräxlmaier	Cables, modular dispensers, connectors, contactors, battery management systems, smart energy distributors, DC/DC convertors, structural electronics, interior electronics, lighting systems, dashboards, doors, low and high voltage energy storage capacitors, high voltage control boxes	Timișoara (W), Satu Mare (N-W), Pitești (C), Hunedoara (C), Brașov (C)	Timișoara, Satu Mare, Pitești, Hunedoara, Brașov	15,000	179.9**
Schaeffler	Bearings, journal bearings, linear guidance solutions, linear roller bearings, gearboxes, transmission components	Brașov (C)	Brașov	4,500	425.5
Yazaki	Electrical distribution systems, smart distribution boxes, control modules, connectors and terminals, dashboard instruments, systems for hybrid vehicles	Timișoara (C), Arad (C), Caracal (S), Urlați (C), Ploiești (C), Bucharest	Timișoara	10,052	321.24

Source: BizBrașov, 2018; Business Cover, 2017; Continental, 2018; Lista Firme, 2018; Profit, 2018a; Transilvania Business, 2017; Ziarul Financiar, 2013b, 2015a, 2015b, 2016, 2017.

* As of 2014 (last available published figure). Source: Ziarul Financiar, 2016a.

** Figure calculated for 2017 from summation of individual branch revenue figures. Source: Termene, 2018.

6.3.2 Elite Relations, Labour and Institutional Change in the Auto Sector

The argument that I want to advance is that organised labour has acted as an elite force by challenging foreign elite power in the post-Socialist era. This has resulted in an interaction between organised labour and representatives of MNCs, in which each category of elites attempted to capture and maintain control over the institutional structure of the sector. I will illustrate this by presenting different instances of labour unrest at Dacia.

On the morning of the March 24, 2008, workers from all departments at Renault's Dacia plant in Mioveni went on a three week strike until April 11 that resulted in a loss of approximately 180-200 million euros for Renault (Capital, 2008; Hotnews, 2008; Mediafax, 2008a, 2008b, 2008c). According to the Dacia trade union leader Nicolae Pavelescu, over 80 per cent of employees participated in the strike (Gazeta de Sud, 2008). In an attempt to stifle the conflict, management utilised a series of tactics of strike breaking, intimidation and threats; however, these all proved unsuccessful (Guga, 2017). Organised labour secured a decisive victory and as a result, the company's management conceded to organised labour's most important demands regarding wages and working conditions (Adăscăliței and Guga, 2015). The unionists obtained a 360 RON salary increase per month and an annual bonus of 900 RON, which combined translated into a salary increase of 435 RON per month per employee, while in 2006 the medium salary per month in Romania was around 600 RON (Mediafax, 2008a; Subiectiv, 2008).

While the 2008 strike is the most exceptional example of social unrest, it is not the sole example when the organised labour at Dacia exhibited elite powers and challenged foreign elites. According to Guga (2017), trade union movement at Dacia underwent a process of revival in the early 2000s, when the labour model shifted from 'labour weakness' and defence strategies to a model of labour unrest and offence strategies. Although largely unchallenged in the first years post-privatisation, in February 2003 a strike erupted at Dacia, with organised labour protesting against the massive layoffs, the stagnant wages, the intensification of work and the raising of productivity standards, and the implementation of a dictatorial regime on the shop floor (Amos News, 2003; Curierul Național, 2003; Adăscăliței and Guga, 2015). What must be understood is that the trade union at Dacia already had a significant level of power in the early 2000s – it had a high degree of control over the shop floor, it had gathered support among its

members for the process of privatisation and restructuring, it eliminated competition, it maintained its associational strength and ensured official trade union policy was followed. However, the conflict with management in 2003 marked the strengthening of the Dacia trade union and its emergence as a challenger of foreign elite power. Paradoxically, instead of this post-privatisation restructuring triggering the weakening of the trade union's position within the enterprise, organised labour at Dacia embarked on a process of unprecedented strengthening (Guga, 2017).

Faced with the growing uncertainties of labour flexibilisation and de-localisation, organised labour at Dacia went on offence again in 2013. On March 20 2013, workers from all departments of the Vehicle Plant stopped work (Auto Industry, 2013; Dacia Group, 2013; Mediafax, 2013; Wall Street Journal, 2013; Ziarul Financiar, 2013a). The trade union claimed that the number of participants in the strike was as high as 5,000, while media reports ranged from 1,000 to 6,000 participants (Adăscăliței and Guga, 2015; Guga, 2017). A range of demands were voiced which included: the need for management to stop undermining the process of collective bargaining, the speeding up of management-organised labour consultations, a 25 per cent increase in the base wage, maintaining the current overtime pay system, eliminating the alcohol test and security checks upon entry and exit from the plant, and improving working conditions, especially managing a better relationship between workers and shop floor supervisors (Dacia Group, 2013). The next day on March 21 2013, management met some of the strikers' demands including: speeding up consultations, the awarding of Christmas and Easter bonuses, the maintaining of the current overtime pay system, the elimination of the alcohol testing when entering and exiting the plant, and the promise of a joint management-union wage renegotiation. The union accepted the offer and the strike was called off. Just comparing how fast management conceded to the strikers' demands in 2013 vis-à-vis 2008 is an indicator of the increase in strength of the trade union against the representatives of foreign capital or foreign elites. Management has understood the importance of maintaining stable relationships with the workers and the need to strive for the continuous appeasement of the trade union. Renault's continuous attempt to keep labour in check is clearly reflected in the year on year growth of gross average wage. Apart from showing its year on year commitment to raise wages, in a communique in 2013 the Renault management listed the wage and non-wage benefits it offered its employees at Dacia:

“[...] we briefly present some of the provisions that are currently in force and were also valid in 2012: a guaranteed minimum wage for skilled workers of 1,918 RON; in 2012, apart from their wages workers enjoyed Easter and Christmas bonuses of 873 RON gross and 957 RON gross respectively; gift vouchers worth 60 RON for the 8th of March granted to all women employees; Christmas vouchers worth 60 RON; profit sharing bonus of 1,240 RON gross; holiday bonus of 1,276 RON; food vouchers; free meals for a total of approximately 11,500 employees; subsidised transportation; various aid packages (for marriage, death etc.); days off paid at base wage rate apart from the ones granted by law in situations such as family events (childbirth, marriage, death), changing of domicile, blood donation, etc. [...]” (Dacia Group, 2013).

In order to highlight its continuous effort to the employees’ and region’s economic welfare, management has also disclosed the size of investments in production expansion and activity diversification.

Table 6.4 Gross Average Wage and Year on Year Growth at Dacia 2008-2012

Year	Gross Average Wage (RON)	Year on Year Growth (%)
2008	2,256	-
2009	2,668	18.26%
2010	3,262	22.26%
2011	3,632	11.34%
2012	3,965	9.17%

Source: Dacia Group, 2013.

Table 6.5 Gross Average Wage and Year on Year Growth at Dacia 2008-2012

Year	Size of Investment (Million Euros)
2004	187
2005	180
2006	193
2007	260
2008	194
2009	154
2010	142
2011	148
2012	250

Source: Dacia Group, 2013.

We don’t observe a similar model of labour unrest at Ford’s subsidiary in Romania, instead the institutional structure of the car manufacturer at Craiova is permeated by a

stronger degree of labour weakness and defence strategies. What this indicates is that the institutional configuration of Romanian industrial relations is marked by heterogeneity, with the auto sector displaying instances of organised labour of varying levels of ‘coordination’: strong coordination at Renault vs. weak coordination at Ford. This is in line with Schneiberg’s argument that every institutional model is defined by a variety of institutional logics that exist in parallel with one another (2007). As I argued in Chapter 3, to be comprehensively understood, national models need to be broken down into different spatial scales and the different spatial scales need to be analysed in order to capture the structural particularities that define a national political economy. There is institutional divergence and variety between the different sectors of a national model; however, one can encounter institutional differentiation even between the firms of a single sector within the national model.

Organised labour at Ford’s subsidiary in Craiova was not able to position itself in such a way as to challenge the foreign elites. I argue that there are three institutional particularities that prevented organised labour to act as an elite force within the internal dynamics of the Ford enterprise. First of all, the size of the plant in terms of number of employees is significantly smaller than Renault’s subsidiary – this translates into smaller trade union membership and a weaker voice of organised labour against management. Second, technological activities at the plant in Craiova are skewed towards downstream non-analytical and non-R&D activities such as production and assembly, whereas Renault’s subsidiary encompasses an entire range of technological activities from downstream to complex upstream segments of the value chain including design and R&D. Thus, the level of skills and the degree of investment in training and education is much lower at Ford than at Renault. Employee skill level has a direct effect on the degree of power that labour can command against management – the more skilled the workforce the more power it will have to pursue an aggressive pay policy and to demand improved working conditions under the threat of strike action. Thirdly, FDI displacement by a US car manufacturer might have resulted in the internal company dynamics shifting towards more liberal market economy institutional complementarities (Hall and Soskice, 2001; Clark and Almond, 2006; Hall and Gingerich, 2009). According to Ferner et al. (2004) and Ferner and Almond (2006), US MNCs tend to be inflexible and insensitive to the structural particularities of national political economies and furthermore, they tend to act as ‘emissaries’ of the American system. More specifically, some authors argue that subsidiaries of US MNCs will

attempt to emulate the institutional configuration of the US system in the location they have been situated (Ferner et al., 2004; Ferner and Almond, 2006; Edwards et al. 2013). In my case, foreign elites or representatives of foreign capital would have worked against the development of a strongly coordinated industrial relations model at Craiova, and hence, limited the voice of organised labour (the Trade Union of Ford Automobiles Craiova) in order to avoid instances of labour unrest or to have management's decisions challenged.

6.3.3 Elite Relations, Education and Institutional Change in the Auto Sector

When analysing the overarching institutional structures of the political economy, we observe a strong degree of institutional complementarity between the key moments of institutional change of the auto industry and the development of the educational system. The educational system specialised in auto was created by the dominant elites as an institutional support mechanisms for the domestic production capacities that had developed during the Socialist era. Hence, my argument is that education acts as a force of change with which the dominant elites engage and interact within the institutional context of the auto industry.

According to a key representative of the automotive-oriented educational system (interview code A_11), the first Auto Engineering University was established in Pitești in 1969 as a response to the formation of the licensing agreement between Dacia and Renault. During the timeframe of the licensing agreement, there was a high level of institutional collaboration between the plant and the university, with specialists from Dacia being integrated within the university and vice versa. Furthermore, Dacia acted as a patron to the university, supplying the necessary equipment and sponsoring the creation of laboratories. Apart from managing a tight institutional cooperation with higher education, Dacia facilitated the formation of a nexus of alliances with all the technical colleges from the region. What this institutional landscape indicates is a high level of institutional complementarity between the spheres of education and labour, with the presence of one enhancing the returns of the other (Aoki, 1994; Hall and Soskice, 2001). The growth of the car and components industry throughout the 1970s and 1980s triggered the diversification of the educational system, which in order to keep up with the labour demands of Dacia and Olcit expanded its portfolio of specialisations – for example, the University in Pitești opened new departments specialised in industrial electronics and information systems, and the technical colleges expanded their support-

related specialisations in the Argeş region. The high level of institutional collaboration between car manufacturers and educational institutions continued throughout the post-Socialist period. The nature and degree of this ‘communication’ between institutional spheres is similar to the concept of institutional complementarity (Aoki, 2000; Hall and Soskice, 2001; Clark and Almond, 2006; Hall and Gingerich, 2009). The two institutional spheres mesh quite neatly together resulting in the creation of an institutional blueprint skewed towards the CME typology. More precisely, the institutional sphere of education and training in Romanian auto displays CME-like features. My literature review has highlighted that the Romanian political economy isn’t the only CEE state that displays CME-like institutional particularities in some of the institutional spheres of specific industries (Feldmann, 2006, 2007; King, 2007; Mykhnenko, 2007).

The formation of the educational system that supported the production capacities at Craiova took place later (interview codes A_9, A_11). Initially, the main educational institution within the region was the Olcit technical college. The pool of necessary engineers and specialists was supplied by the University in Piteşti. It was only in the early 1990s that we saw the formation of a department specialised in automobile engineering within the University of Craiova. This coincided with the acquisition of Olcit by Daewoo. The late development of higher education in Craiova can be explained using a model of institutional heterogeneity or variegation, where an institutional model can be permeated by the presence of differentiated logics that exist in parallel (Jackson, 2003; Schneiberg, 2007; Jackson and Sorge, 2012; Vidal, 2014; Kirchner and Beyer, 2014). This is the case with the Romanian automotive educational system – similar to the industry formation, development has not taken place homogeneously and at the same time across the educational sphere. I argue that there were three factors that have contributed to the late and lesser development of the automotive educational system in Craiova: 1) the relative size of the plant in terms of number of employees, 2) the technological activities at the plant were skewed towards downstream non-analytical and non-R&D activities, thus rendering it unnecessary to develop a higher educational system, and 3) the University of Piteşti could ensure the timely supply of graduates required by both car manufacturers present in the national political economy (interview codes A_9, A_11). Based on my interviews with a key representative of the automotive-oriented educational system (interview code A_11) and a former executive director at Olcit/Daewoo (interview code A_9), we can observe a similar type of institutional

collaboration at Craiova between the enterprise – whether it was Olcit, Daewoo or Ford – and the educational institutions within the region throughout time. Furthermore, over time the MNC players acted as patrons for the educational institutions, supplying them with equipment and technology (interview codes A_9, A_11).

The context is permeated by an inter-institutional automotive collaboration between the University of Pitești and the University of Craiova. According to a key representative of the automotive-oriented educational system (interview code A_11):

“The collaboration between us [University of Pitești] and them [University of Craiova] has been continuous. We have had meetings, protocols, joint participations at science fairs, joint development projects, these types of things.”

Hence, the two car hubs do not exist in isolation. There is a clear communication flow and knowledge transfer between the two educational institutions. What this institution-institution type of collaboration indicates is the existence of a tight level of coordination within the industry’s educational system typical of a coordinated market economy.

Furthermore, the institutional complementarities between the spheres of education and labour have enabled the formation of joint research collaborations and projects between the universities and enterprises. I will use the collaboration between the University of Pitești and Dacia to illustrate this. The University has allocated Dacia an entire department in order to engage in R&D, design and technological testing (interview code A_11). The projects within the department are undertaken together by both specialists from Dacia and senior academic figures, as well as students. Among the projects the research group has focused on include: the creation of the electric vehicle, engine optimisation programmes, and the development of propulsion systems. Aside from this research activity, Renault Technologie Roumaine (RTR) – Dacia’s R&D centre – is involved in the University’s Masters Programme (interview codes A_1, A_11). Specialists from RTR launch research projects that students can participate in – which if sufficiently creative can be taken over and implemented within the enterprise.

Romania has had long-established historical legacies of apprenticeships, especially in the heavily industrialised sectors. However, major budget reductions, a wide range of poorly developed reform strategies and the massive wave of de-industrialisation in the first decade of the post-Socialist era transformed vocational education into ‘undesirable

remains' of the former regime (Ban, 2012). In order to supplement the theoretical education provided to students with practical knowledge, foreign auto players collaborated with the representatives of the educational system in order to establish practical courses or apprenticeships (interview code A_11). Hence, I argue that the needs of foreign capital in conjunction with the institutional support provided by the educational sphere influenced the re-instatement of the apprenticeship system within the institutional configuration of Romanian auto. The apprenticeships that are obtained through an application process take place in Year 3 and Year 4 in parallel to the formative education provided by the university. In order to avoid timetable clash, the university has to closely coordinate with the enterprise to make sure students are able to fulfil their responsibilities to both the university and the employer – this indicates a high level of institutional collaboration between the car manufacturer and educational institution. Apprenticeships last between three to six months, with students having the opportunity to work in any of Dacia's or Ford's departments. Students are required to choose a project and based on the project's specialisation they are assigned a supervisor. In order to complete the apprenticeship, students need to submit their project which will be assessed and graded. Apprenticeships are just another instance of institutional complementarity between the spheres of education and labour within the national political economy, with the institutional particularities of the Romanian auto system being skewed towards a CME type.

6.4 Conclusion

This chapter has shown that the dominant elites are the primary drivers of institutional change within the Romanian auto sector. The dominant elites have captured the state and its institutional structure, and in the process they have managed to capture the auto industrial order. One of the principal aspects that has emerged throughout this chapter is that during the Socialist period the structure and direction of the industry was controlled by domestic elites. Similar to coal mining, domestic elites facilitated the access of international forces – in the form of licensing agreements and technological imports – as indigenous production capacities and technological resources could not alone sustain and drive the development of auto. The institutional trajectory of the sector diverged in the first decade post-Socialism, when after a period of economic turmoil foreign capital displaced the industrial order and dismantled the model of inward-orientation. This emerging paradigm strongly contrasts with the coal mining paradigm, which has always

sought to restrict the degree of interaction with foreign forces, limiting it to licenses and technological imports, and has rejected the intervention of FDI.

The dominant elites have permeated the institutional setting of auto from industry inception until present alongside other categories of social agents with diverging positionalities and from different spheres of interest. Rather than being insular forces and acting independently within the institutional context, dominant elites and other social agents engage in different forms of collaboration and conflict. Although the central assumption that I have made is that elites are stable in terms of their control over the industrial order, as I have shown there are constant fluctuations within the composition of both the dominant elite coalition and the other competing elite coalitions. In some cases, elite groups can challenge the status of the dominant coalition, and in the process destabilise it, resulting in a significant loss of power and ultimately in a downgrade to an inferior position within the elite structure. This is what happened to domestic elites during the key moment of institutional change when foreign capital privatised the sector and took over the Romanian auto enterprises. Domestic elites – both representatives of the state and domestic managers – took a backseat role in the interactions with representatives of foreign capital and lost a significant degree of decision-making power regarding the structure and direction of the industry. In other cases, elite groups can challenge the power and position of the dominant coalition, but without destabilising it. Instead of seeing the downgrade of dominant elites, what can be observed is a moderate limitation of the powers of the dominant coalition and the strengthening of voice of other competing elite groups in their negotiations with the dominant players. The instances of labour unrest that I have presented are exactly such interactions between the dominant elites and organised labour, when the latter group challenged the position of the dominant coalition and in the process, succeeded in extracting a series of benefits and keeping in check the powers of the Dacia management.

Throughout the chapter, it has emerged that the institutional setting of auto is permeated by a series of interactions between the dominant elites and different forces of change, which have driven institutional change and have shaped the configuration of Romanian auto. The interaction between the dominant elites and industrial policy is the first interaction that I have analysed. Elites influenced the process of technological upgrading via the utilisation of technological imports and licensing agreements within the institutional structure of the sector. Initially, an import-oriented institutional

framework was imposed which resulted in the industrial order to heavily rely on machinery and equipment, parts and materials, and training and specialisation from foreign suppliers. The dominant elites from the political sphere triggered a shift in the industrial policy by reducing the importation of foreign technological resources and instead, focusing on creating an autarchic model based on the promotion of internal production capacities. Thus, the import-oriented institutional framework was dismantled and replaced with an inward-oriented, self-sufficient institutional model that relied upon outdated indigenous technological resources. The outdated technological base combined with the economic difficulties and lack of capital that plagued the Romanian political economy in the first part of the 1990s made domestic elites realise that foreign collaboration was necessary to ensure the survival of the industry. Hence, domestic elites facilitated the access of foreign capital and allowed the industrial order to be displaced by MNCs. Foreign capital displacement triggered an extensive process of technological upgrading, knowledge transfer and the re-organisation of other value chain segments. Furthermore, major investments were made in order to introduce new production lines and to re-technologise the outdated plants, new standards of quality and productivity were adopted, and extensive training programmes were carried out both on-site and abroad. A secondary impact of FDI inflows within the Romanian auto sector is the emergence and growth of the components industry. Major foreign components suppliers followed Renault and Ford, establishing a presence within the domestic institutional configuration and further increasing Romania's level of integration with the European auto production network. Large investments were made to stimulate the industrial upgrading of the institutional structure of the domestic components industry, which was significantly behind the standards of quality and productivity required in Western markets. The presence of foreign components manufacturers also influenced an extensive process of knowledge transfer through the organisation of training and re-qualification programmes for labour specialised in auto in the Pitești and Craiova areas. Furthermore, the presence of foreign components suppliers has had massive transformative effects on the industrial structure of the area that they are located in, with massive investments having been made to facilitate the expansion of production capacities, the creation transportation links, the construction of storage facilities and the development of other supporting industries that feed into the components industry.

The interaction between dominant elites and organised labour is the second interaction that I have looked at. The labour model of Romanian auto contradicts the typical CEE

industrial relations literature, which characterises organised labour in post-Socialist economies as weak and fragmented. More precisely, industrial relations in Romanian auto are not skewed towards the LME model. Using a series of instances of labour unrest at Dacia, I demonstrated that organised labour acted as a counter-elite force by challenging foreign elite power in the post-Socialist era. The interaction between organised labour and representatives of foreign capital was of a competitive and conflictual nature, with each category of elites attempting to capture and maintain control over the institutional structure of Dacia. The result of the management-trade union conflicts was the strengthening of voice of organised labour and its ability to re-negotiate working conditions, while at the same time limiting the powers and degree of control of Dacia's management over the structure of the enterprise. At the same time, the interaction between representatives of foreign capital and organised labour has revealed that the auto sector displays an organised labour model of varying levels of coordination and strength. I did not observe a similar model of labour unrest at Ford's subsidiary in Romania, as organised labour (the Trade Union of Ford Automobiles Craiova) wasn't able to position itself in such a way as to challenge the foreign elites. This indicates that industrial relations in the Romanian auto sector are marked by institutional heterogeneity.

The third interaction that I have discussed is between elites and education. At the macro-level we saw a state-industry collaborative arrangement, with the dominant elites from the political sphere creating an educational system specialised in auto in order to provide institutional support to the key players from the sector. Throughout time, the growth of the car manufacturing industry combined with the expansion of the components industry had spill-over effects on the development and diversification of the educational system. Beyond the macro-level interaction, there is an extensive array of collaborative arrangements at the micro-level between auto enterprises and educational institutions – both universities and technical colleges. For example, I have shown the existence of joint research projects between auto players and higher educational institutions, where academics, industry specialists and students work together to develop specific technologies and processes. Furthermore, Dacia and Ford act as patrons to the universities in Pitești and Craiova respectively, supplying them with the necessary equipment and sponsoring the creation of laboratories and specialised teaching courses. The apprenticeship programme is another such instance of collaboration between educational institutions and auto players. Based on this evidence,

I argue that the institutional context is defined by a high degree of institutional collaboration or strong complementarity between Romanian car manufacturers and educational institutions – more specifically, the two spheres of the political economy mesh together quite neatly, creating an institutional configuration that is skewed towards the CME typology. Moreover, my analysis has revealed that the institutional context is permeated by inter-institutional collaboration between the two main universities – Pitești and Craiova. This highlights the fact that there is a clear communication flow and knowledge transfer between the two educational institutions. Institution-institution types of collaborations further emphasize the existence of a high level of coordination within the industry's educational system that is typical of a CME.

Considering the role it plays in the institutional context of the auto sector, I argue that the interaction between elites and the other forces of change – industrial policy, labour and education, has had a transformative influence on the industrial order and its institutional configuration.

Chapter 7

Investigating the Role of Foreign Elites in Creating the Romanian Business Services Sector and Influencing Institutional Change (2003-2018)

7.1 Introduction

This chapter discusses the position of the business services sector within the Romanian institutional configuration from 2003-2004 until 2018, and provides evidence of how different categories of elites have influenced the structure of the industrial branch throughout time.

The reason why I have chosen to analyse business services is because it represents a relatively newly established and fast growing sector within the institutional structure of the Romanian political economy. Because of these characteristics of novelty and dynamism, the sector has been insufficiently researched. Furthermore, there is very little insight regarding who are the actors shaping and controlling the institutional configuration of the sector and what are the internal dynamics between these actors. Business services has a different institutional framework vis-à-vis the institutional make-up of other industrially-oriented sectors that are deemed as traditional for the Romanian national variety of capitalism, such as the two other sectors that I am investigating – coal mining and auto. To explore the distinct institutional configuration of business services, I examine the development of the sector historically and the influences that have affected its structure and composition over time.

In the second section of this chapter, I present some technical data regarding the institutional growth, timeframe and geography of the Romanian business services sector.

The third section of the chapter is a discussion about the identity of elites. The identity of the elites shaping and controlling the structure of the business services sector is distinct from that of coal and auto. The representatives of foreign capital, or more precisely the managers of MNCs, are the primary drivers behind the emergence and evolution of the sector. However, MNCs do not exist independently as sealed containers or insular entities within the institutional structure of the sector; rather, they are positioned within the wider institutional context alongside other types of social actors. Thus, I explore who are the other actors present within the institutional setting alongside the representatives of foreign capital – more precisely, domestic elites (government and

local/regional level state authorities) and labour. Furthermore, the chapter strives to capture the different types of exchanges and networks between these divergent categories of actors with varying degrees of power and positionality that permeate the internal dynamics of business services.

In the fourth section, I capture the story of institutional change in the Romanian business services industry, by identifying four instances of interplay between MNCs and different forces of change that permeate the internal dynamics of this sector. The four instances of interplay embedded within the internal dynamics of the sector include 1) the interaction between MNCs and domestic elites, 2) the interaction between MNCs and the educational system, 3) the interaction between MNCs and labour, and 4) the interaction between MNCs and industrial upgrading.

In the fifth section of the chapter, I re-consider the key moments of institutional transformation emerging from the preceding empirical analysis and draw conclusions on how the interplay between the different categories of social agents influenced the institutional setting of the business services sector throughout time.

7.2 Identifying and Mapping Elites in the Romanian Business Services Sector

The ownership structure of the business services sector is dominated by strategic investors and entrepreneurs that have been primarily active during the last 14 years (ANIS, 2016). The business services sector is almost completely privately-owned and concentrated around MNCs in one of the three broad areas of interest (by categories of supported processes) (ABSL, 2015; ANIS, 2016). According to KPMG, approximately 25 per cent of the professionals employed in business services are involved in the information technology area (ITO and R&D). A similar percentage is employed in customer relations such as business process outsourcing and shared service centres (BPO and SSCs). The remaining 50 per cent work in finance and accounting, banking, insurance and financial services (BIFs), and human resources (HR) (Romania Insider, 2015). The vast majority of private, foreign entities dominating the sector provide a portfolio of services combining several categories of business processes (ABSL, 2015, 2018a). Five of 20 representatives of the business services industry highlighted that over

95 per cent of the industry is controlled by foreign capital (FDI), and the indigenous companies are small and their activities have a small impact within the sector.⁶⁴

Hence, the primary players in the creation and evolution of the institutional configuration of the Romanian business services sector are the representatives of foreign capital – the managers of MNCs. Based on the 20 interviews with business services representatives, it was highlighted that MNCs were the drivers of business services investments and the creators of this institutional niche within the national political economy. Thus, I can argue that within this chapter the dominant elites that have established and shaped the institutional configuration of the industrial order of business services are foreign investors. Business services are institutionally distinct from coal and auto, since from inception the institutional configuration of the industrial order has been dominated by foreign capital representatives, while domestic political players have played a secondary supporting role throughout the entire timeframe of the sector.

However, foreign investors are not the only social actors that played a role in the development of this sector. Instead, what can be observed is also the presence of endogenous forces in the form of domestic elites that have driven institutional change and shaped the configuration of the business services sector within the national Romanian variety of capitalism. Domestic political players are also part of the elites, forming their own elite sub-coalition that is distinct from that of representatives of foreign capital. As I have stated above, their positionality and degree of power is considerably lower; however, we must not make the mistake of overlooking their ability to drive institutional change. Domestic political players had a direct impact on the establishment and development of the sector, having the power to decide whether FDI is realised or not through the facilitation of the necessary licenses and permits for the business to operate within the national context. Furthermore, as I shall discuss in greater detail further in the chapter, domestic elites have created a system of institutional incentives that is aimed at attracting new foreign capital, but also directed towards the growth and development of already established MNCs players. Another instance of institutional support that is facilitated by domestic political players is the creation of collaborative arrangements between the representatives of business services and the Romanian educational system. There is evidence to support that domestic political

⁶⁴ Interviews: BS_1, BS_2, BS_8, BS_12, BS_14.

players have pushed for the establishment of an educational system that is attuned to the needs of the sector, and in the process, the two spheres – capital and education – converged on similar institutional practices resulting in a level of institutional complementarity (Hall and Soskice, 2001; Jackson and Deeg, 2006; Hall and Gingerich, 2009; Hancké, 2009).

7.3 Findings about the Institutional Growth, Timeframe and Geography of the Romanian Business Services Sector

The sector of business services includes all the companies whose economic activity is within the area of Shared Services Centres (SSC), Business Process Outsourcing (BPO), Information Technology Outsourcing (ITO), and Research and Development (R&D).

The emergence of the business services sector has been one of the greatest achievements of the Romanian economy in the last two decades. The sector has grown from less than 200 employees in 2004 to 120,000 employees in 2017 (ABSL, 2017, 2018b; Business Review, 2018). Four out of 20 industry representatives, emphasized that the sector registers an annual growth rate of 17-19 per cent and that the number of jobs in the sector will rise to 200,000 by 2020.⁶⁵ This information is corroborated by sector analysts who also expect business services jobs to reach the ‘200,000 jobs’ mark by 2020 (Business Review, 2016). According to an industry study carried out by KPMG (Actmedia, 2016), the main industry players have plans to expand their operations in the upcoming two years. Approximately 50 per cent of the companies involved in the KPMG study are considering providing new services to current and prospective customers, whereas around 18 per cent intend to enlarge their operations by offering the same portfolio of services to new customers.

Sector turnover is experiencing the same upward trend – in 2012 total sales revenue from business services was around €500 million, whereas in 2014 the sector generated €1.5 billion (The Diplomat, 2015; Romania Insider, 2015). In 2014, the business services sector accounted for 1.4 per cent of gross domestic product and business services professionals constituted 1.9 per cent of the country’s active population – since then the contribution of the sector has grown (Business Review, 2015; ABSL, 2017). According to two executive directors of business services MNCs and members of Association of Business Service Leaders in Romania, in 2016 the industry accounted for

⁶⁵ Interviews: BS_2, BS_12, BS_13, BS_14.

1.6 per cent of gross domestic product and industry jobs represented 2.0 per cent of the country's working population (interview codes BS_13, BS_14). There are currently 265 business services centres in Romania, specialised in all four types of activities – BPO, SSCs, ITO and R&D (Business Review, 2016). This figure is also projected to grow.

The business services sector is one of the most recently developed institutional orders within the Romanian national variety, having established its institutional foundations around 2003-2004 (Dudian, 2011). Out of the total 20 sector representatives 14 stated that business services emerged sometime during 2003-2004,⁶⁶ with two sector representatives placing the emergence of business services in the second half of the 1990s.⁶⁷ However, the two interviewees highlighted the fact that you can hardly categorise the activities undertaken by MNCs during the 1990s as business services, rather they were 'very basic call-centre-type activities'.

All 20 interviewees characterised the industry as being within the 'infancy stage' and 'very far from mature'. Furthermore, three executive directors and members of ABSL underlined the fact that only since 2013-2014 has the sector started to 'appear on the international map' and have a considerable footprint, and that until then its impact was negligible.⁶⁸ According to industry experts, foreign capital permeated the market via three investment waves that have divergent timeframes and geographies (The Diplomat, 2015). The presence of these waves has also been reinforced in the interviews that I have carried out.

The first-tier investment location is Bucharest. The literature review and the semi-structured interviews have revealed that foreign investors first targeted the capital, with FDI inflows starting to penetrate the market in the early 2000s. According to two sector representatives in Bucharest who are also members of ABSL, in 2017 between 60,000 and 70,000 people were working in business services in Bucharest (interview codes BS_12, BS_13). Industry analysts confirmed this figure, stating that approximately 60 per cent of total business services sector employees are concentrated in Bucharest (ABSL, 2017).

⁶⁶ Interviews: BS_1, BS_2, BS_3, BS_4, BS_5, BS_6, BS_8, BS_10, BS_11, BS_12, BS_13, BS_14, BS_15, BS_16.

⁶⁷ Interviews: BS_7, BS_9.

⁶⁸ Interviews: BS_12, BS_13, BS_14.

Based on my investigation, a number of secondary investment destinations emerged around the time Romania became a Member State of the EU (interview code BS_13). A massive opening-up of the Romanian market to business services was highlighted throughout four of my interviews that coincided with accession to the EU.⁶⁹ The second-tier investment locations are: Cluj, Timișoara, Iași and Brașov. According to five of my interviewees, each of these four major cities focuses on a particular type of economic activity and has a specific cluster specialisation.⁷⁰ Furthermore, what was consistently emphasized by 11 sector representatives, senior executives of business services MNCs in Timișoara and Bucharest, was that second-tier locations have only been partially exploited by investors and there is significant untapped potential.⁷¹

Moreover, the industry has grown so rapidly that according to seven of my interviewees a third-tier location has emerged.⁷² The information that I have unearthed highlights the ‘embryonic’ status of these investment locations, with their development only occurring from 2010 onwards. Third-tier investment locations include cities such as Sibiu, Craiova, Pitești and Piatra Neamț. An essential aspect emanating and corroborated throughout the interviews is the fact that so far third-tier locations have only been marginally exploited and that there are substantial investment opportunities to be accessed. One MNC executive and founding member of ABSL illustrates the untapped potential of tier-two and tier-three locations in Romania (interview code BS_14):

“When you look at Romania you only have one one-tier city which is Bucharest and Bucharest still has some potential, but we haven’t looked at tier-two cities, I mean there are a few sparks here and there. We have gone to Timisoara, IBM has gone to Brașov, Capgemini and a few other, Amazon, have gone to Iași. With the exception of Cluj which is like the Silicon Valley and is saturated with IT, there is not so much exploitation that has happened. [...] I think business will migrate out of Bucharest, because Bucharest is also... there is a fight for talent, everybody is stealing each other’s people, so it [FDI] will go to smaller towns, to tier-two or to tier... I’m not even talking about tier-three, I’m talking about tier-two because we haven’t even exploited Romania to tier-two level at all, there is a lot of potential there. I am talking just basic cities like Galați, there’s only

⁶⁹ Interviews: BS_2, BS_8, BS_13, BS_18.

⁷⁰ Interviews: BS_2, BS_8, BS_9, BS_12, BS_13.

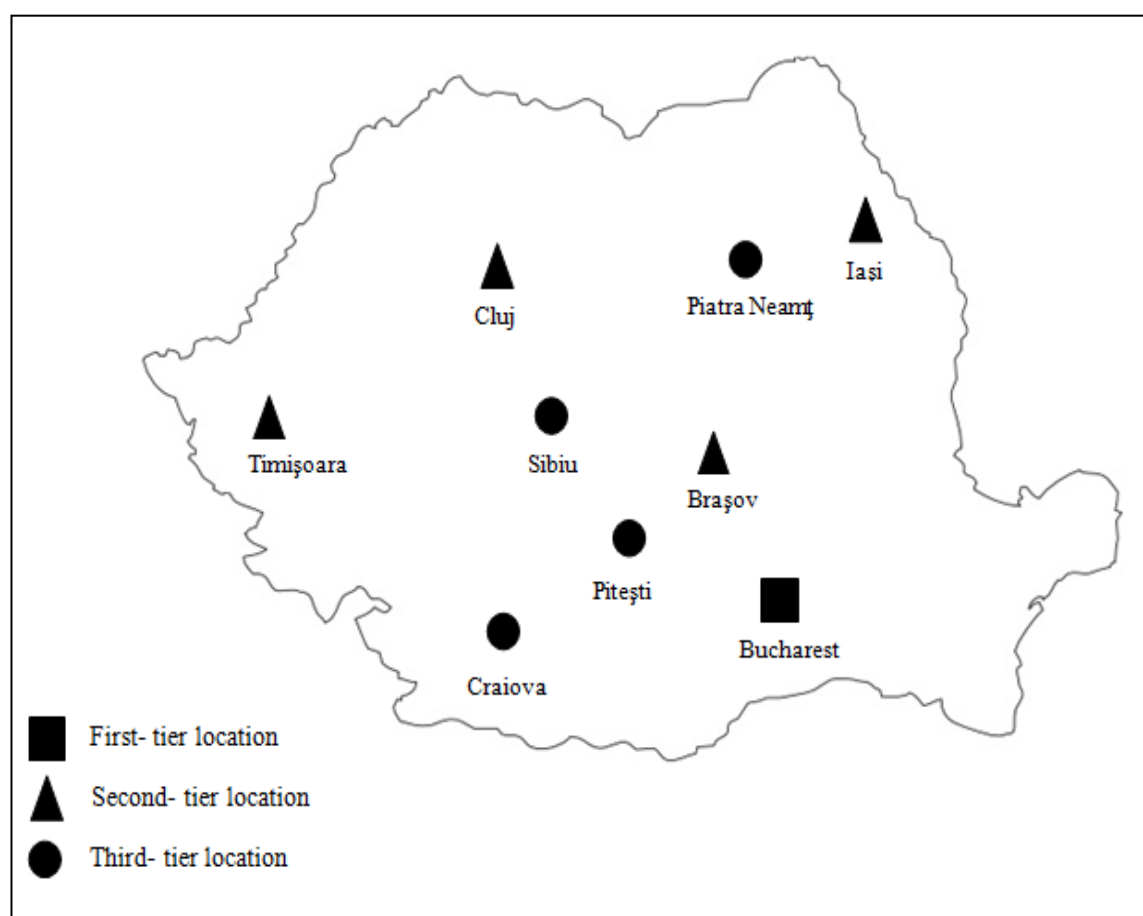
⁷¹ Interviews: BS_1, BS_2, BS_3, BS_4, BS_5, BS_6, BS_12, BS_13, BS_14, BS_17, BS_18.

⁷² Interviews: BS_1, BS_2, BS_8, BS_9, BS_12, BS_13, BS_14.

Arcelor Mittal there, that too because they have a mill and they have some people who work there, but anybody else?”

The quotation that I have presented above highlights the strong investment potential for business services MNCs to relocate outside the Romanian capital. Furthermore, the quotation emphasizes the fact that there is significant potential to expand the business services sector to other secondary and tertiary locations. Moreover, according to seven sector representatives, due to the saturation of Bucharest as the primary investment location, future business services FDI is expected to be directed towards second- and third-tier cities.⁷³

Map 7.1 Map Containing the Different Business Services Geographies and their Timeframe of Development in Romania (2003-2018)



⁷³ Interviews: BS_1, BS_2, BS_8, BS_9, BS_12, BS_13, BS_14.

7.4 Elite Relations and Dynamics of Change in the Romanian Business Services Sector

Aside from being forces of institutional change and creation themselves, MNCs exist in parallel to other forces defining and shaping the institutional context of business services. As I have stated earlier, the social landscape that I have conceptualised is one based on dynamic and continuous exchanges between different networks and levels of actors that can be of a collaborative or conflictual nature, that can have creative or destructive effects, that can determine the displacement or upgrading of the configuration of the sector, or that can lead to the imposition or transfer of various institutional measures and knowledge. Consequently, to properly sketch out the story of institutional change in the Romanian business services industry, I have detected four instances of interplay between the MNCs and different forces of change: 1) the interaction between MNCs and domestic elites, 2) the interaction between MNCs and education, 3) the interaction between MNCs and labour, and 4) the interaction between MNCs and industrial upgrading.

Table 7.1 Descriptive Information Regarding the Business Services Firm Sample						
Company Name	No. of Interviews Conducted	Interviewee Position	Company Specialisation	No. of Employees in Romania as of 2016	Location in Romania	Size (Global) as of 2017
Ipsos	4	Director of EU Operations Vice President, Global Vendor Management Office & EU Project Management Vice President of Production Global Vice President Global Operations	Online market research, IT application development, consulting	943	Bucharest* Braşov	16,600 employees €1,783 million revenue
IBM	2	Director of Operations Finance Director	Data management and analysis; Cloud computing; AI technology development; broadband solutions and connectivity solutions; cyber-security and integrated system of analytics and real-time defences; mobile technology	2,653	Bucharest Timișoara* Cluj	380,300 employees \$79.14 billion
Accenture	1	CEO	Business strategy, technology strategy and operations strategy services; technology, business and management consulting; digital marketing, analytics and mobility services; technology solutions, implementation, delivery, and research & development; model of service delivery including business process outsourcing, IT services, cloud services, managed operations, security and infrastructure services	2,700	Bucharest Timișoara* Iași Cluj Târgu Mureș	435,000 employees \$34.85 billion
Nokia	2	Multimedia Site Manager Head of R&D	Enabling massive-scale; secure and low-energy connectivity; broadband solutions; cloud computing; IP network creation; digital health technologies; professional services spanning consulting, designing, planning, implementing and operating; provision of media technology and innovation ecosystems	1,900	Timișoara* Bucharest	102,761 employees €23.147 billion revenue

HP	2	Head of Outsourcing Director of Sales	Imaging, business process, analytics, digital processing, automation, compliance training, compliance validation, and HR compliance consulting services; and customer experience services, including consulting, customer care analytics and automation, customer retention and relationship management, customer services, customer technical support, inside sales solutions, robotic process automation, and self-care services; commercial digital payment and public services; finance and accounting services, such as consulting, finance as service, invoice to pay, order to cash, and record to report services; healthcare solutions; human resource services; learning services; legal solutions; procurement	2,000	Iași Bucharest*	32,700 employees \$10.27 billion revenue
Veeam	1	CEO	Develops backup, disaster recovery and data management software for virtual, physical and cloud-based workloads, and solutions for non-stop business continuity, digital transformation agility with multi-cloud management and migration, analytics and visibility with actionable insights for data management, operational performance and compliance	300	Bucharest	2,885 employees \$827 million revenue
Microsoft	1	CEO	Customer support, system and application development, Cloud technologies	470	Bucharest* Timișoara	126,079 employees \$89.95 billion revenue
Wipro	1	CEO of Romanian, Polish and Northern Ireland subsidiaries	Data and analytics solutions, applications development and management, consulting, IT infrastructure and management (data centre transformation, Cloud migration, workplace transformation, network services, and system integration), customer support experience, digital content & marketing, finance & accounting, HR outsourcing, procurement, legal and data analytics	860	Bucharest* Timișoara	166,790 employees \$8.48 billion revenue

Genpact	1	CEO	Finance and accounting, omni-channel customer service, enterprise application services, platform business process outsourcing, IT managed services, procurement, transformation and consulting, collections, aftermarket services, risk and compliance services, human resource services, industrial solutions, IT infrastructure services, master data management, media services, supply chain management	3,500	Bucharest* Cluj	77,000 employees \$2.57 billion revenue
Stefanini	1	CEO	End-user computing services, application services, cyber security, cloud implementation, application management services; marketing analytics and big data, marketing customer experience; financial services; human resource services and solutions; enterprise resource planning	1,800	Bucharest* Braşov Sibiu Târgu Mureş	22,000 employees \$1 billion revenue
Endava	2	Application Management Lead Head of Applications Management	Architecture, smart automation, software engineering, test automation and engineering, cloud, advanced AM, digital evolution, agile transformation, automation, mobile and IoT, insights through data, creative and UX, smart desk	2,400	Bucharest* Cluj Iaşi Piteşti Târgu Mureş	4,200 employees \$204 million revenue

The locations marked with * is where I conducted the in-depth interviews.

7.4.1 MNCs, Elite Relations and Institutional Change in the Business Services Sector

Understanding and capturing the role played by domestic political elites – that is the government and regional-/local-level state authorities – is key to analysing the development of the institutional configuration of the Romanian business services sector and the internal dynamics between its constitutive players.

In order to understand what kind of interaction takes places between these two categories of players and how this interaction influences the institutional setting, I look at the range of policies designed and implemented by domestic political elites and measure what is the effect of the state apparatus.

In the following section, I focus on the licenses and permits that have been awarded to the sector that I investigate throughout this chapter. The granting of licenses and permits by domestic political elites to MNCs has facilitated the emergence of the business services sector. The argument that I put forward is that it is the collaboration between foreign and domestic elite players that has led to the creation of a new institutional order within the Romanian political economy.

The Bureaucratic Structure of the Romanian State and the Issuing of Licenses and Permits to Business Services Players

A total of 15 out of 20 industry representatives described the process of establishing a subsidiary and the interaction with government and regional-/local-level state authorities as extremely complex, opaque and containing excessive bureaucratic procedures.⁷⁴ MNCs experienced difficulties in obtaining the necessary licenses and permits to operate within the sector.

Based on the World Bank's Ease of Doing Business ranking from 1-190, Romania places 45th in 2017, being outperformed by its CEE counterparts – Poland, the Czech Republic and Slovakia – and only surpassing Hungary. While it is true that in terms of the Starting a Business indicator Romania outperforms all four Visegráds, if we look at the three indicators related to licenses and permits – Dealing with Construction Permits, Getting Electricity and Registering Property – Romania scores considerably lower vis-

⁷⁴ Interviews: BS_1, BS_2, BS_3, BS_4, BS_6; BS_7, BS_8, BS_9, BS_12, BS_13, BS_14, BS_15, BS_16, BS_17, BS_18.

à-vis all the other CEEs. The existence of a complex, opaque and cumbersome bureaucratic structure has resulted in business services industry players actively pushing for the improvement of market conditions through the creation of clear and predictable regulatory frameworks and the elimination of excessive bureaucratic obstacles (interview codes BS_1, BS_9, BS_12, BS_14).

Table 7.2 Ease of Doing Business Ranking Based on Selected Sub-indices as of 2017

Economy	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Paying Taxes	Ease of Doing Business Rank
Romania	64	150	147	45	20	42	45
Czech Republic	81	127	15	32	42	53	30
Hungary	79	90	110	29	29	93	48
Poland	120	41	54	38	29	51	27
Slovakia	83	91	57	7	55	49	39

Source: World Bank, 2018. Note: Not all topics of measurement were included in the table; I selected only the ones related to bureaucratic procedures.

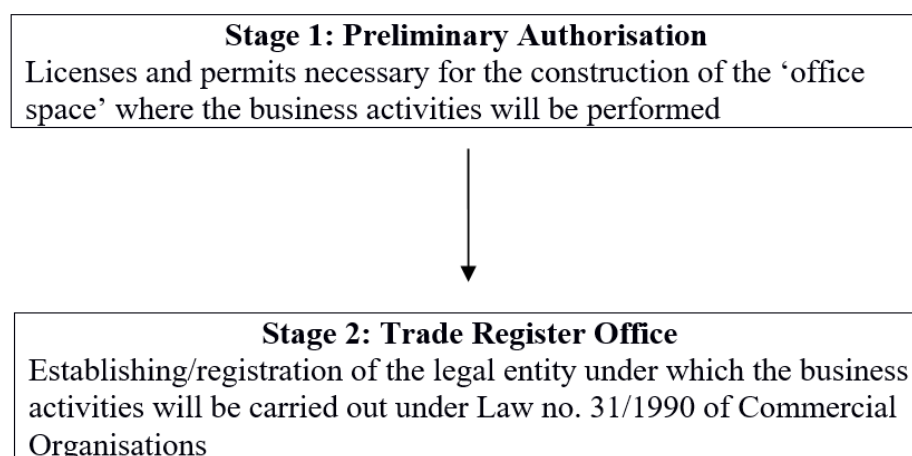
I believe that this highly bureaucratic environment with cumbersome procedures to obtaining licenses and permits has resulted in industry players believing that domestic political elites do very little to support the development of the industry. This context defined by excessive procedures and a slow decision-making process constitutes a historical legacy representative of the Socialist regime. All 20 industry interviewees emphasized that the process of shaping this new institutional order is dominated by MNCs and defined by the absence of the government and regional-/local-level authorities. The executive director of a MNC subsidiary in Bucharest illustrates this perception very well (interview code BS_12):

“The industry emerged organically. If you ask me it was the companies – they were the drivers. Each company came, knew its targets, did its research, looked for an office, and started the recruitment process. At one point there was this ‘trend’ if you want to call it that – the outsourcing at the beginning of the 2000s in this Eastern region of Europe. And companies started to come to Romania in line with this trend. So clearly, the companies were the drivers. Locally, I could not tell you that there is any contribution.”

Hence, there is a debate between the issues of cumbersome procedures vs. absent state that must be addressed. The perception that the institutional setting is defined by the absence of domestic political elites must not be taken at face value. The process of

obtaining authorisation to start up a business within the Romanian institutional context entails two stages that all investors have to follow (Oficiul Național al Registrului Comerțului, Legea Nr. 359/2004, 2004). In the first stage, MNCs had to obtain preliminary licenses and permits that are necessary for the construction/establishment phase prior to the registration of the subsidiary. The licenses and permits included are: the Town Planning Certificate, the Construction Authorisation, the Environmental Approval and the Fire Hazard Approval. In the second stage, MNCs had to obtain the authorisation for the actual functioning of the business at the Trade Register Office. Thus, domestic political elites had a direct impact on the establishment and development of the sector, having the power to decide whether FDI is realised or not through the facilitation of the necessary permits and licenses for the business to operate within the national context.

Figure 7.1 Authorisation Process to Start-up a Business



Institutional State Support in the Romanian Business Services Sector: The Provision of Land

I will now analyse the issue of land access. The implication of the government and regional/local-level state authorities is not only restricted to the issuing of licenses and permits, instead what can be seen are instances in which the state representatives offer the industry players institutional support via the allocation of land. According to the executive director of a major industry player in Bucharest (interview code BS_17):

“These are private initiatives. [...] if we are talking about large companies the state has nothing to do with it, usually the state provides land, but that might also be bought [by the MNC].”

Again, there is the reinforcement that the state is absent or there is insufficient participation of domestic political elites, and that this institutional order has been driven solely by MNCs. However, this is not the case. Land provision has been utilised as an investment incentive by the state to attract foreign capital within the national political economy. More precisely, state representatives offer land suitable for construction or office space (or a combination of both) to MNCs looking to establish subsidiaries in Romania either for free or at a very attractive price. These types of incentives tend to be awarded when the investment is over a specific level or ceiling in terms of value and/or the number of jobs created directly. Furthermore, these investments are utilised as an aid for the MNC subsidiary during its infant development stages and tend to be over a pre-determined timeframe. This type of incentive has been widely used within the Romanian business services sector, as well as other industries such as IT, car manufacturing and its related and supporting industry – components manufacturing (Bursa, 2016; News, 2016; Ziarul Financiar, 2016c). As I have shown in Chapter 6, the Romanian state utilised such an investment incentive within the institutional configuration of the auto sector in order to facilitate the establishing of strategic alliances with Daewoo, Renault and Ford. This institutional measure facilitated by the state has been accompanied by a low range of real estate prices offered by office developers that are significantly more attractive than what the other CEE countries have to offer (McKinsey, 2015 in ABSL, 2017; Bursa, 2018).

When comparing Romania to the other CEEs, what can be observed is that the provision of land as an investment incentive within the business services industry is a common practice throughout the entire CEE region (ABSL, 2015). The executive director of a leading business services MNC and founding member of ABSL captured the story very well (interview code BS_14):

“Many years back like seven I was looking to set up shop in Poland, so I was exploring Gdansk which is a city in the north of Poland, so I went there to have a look just to see what is happening. As it happens the city investment board said: ‘come and have a look, we will show you, we will share a presentation etc etc’, but they did much more than this. So apart from the regular benefits and incentives that normally you would offer to an investing body they said: ‘listen if you are really keen about setting up shop I’ll tell you what, I’ll give you an office for the next six months and I will charge you one Euro per month for it; we realised you are the new investor

coming in, you want to invest, you need to set up an office, you need to get going etc etc, have interviews, get people on board etc. It's a pain to do that and it's a lot of money, so it takes time, so I will tell you what – we will give you offices, let's give you an office for the next six months and we will charge you one Euro per month because we can't do it for free as we are a government agency. Offices are yours, you have everything: Internet, printers, the complete works – use it! Because you are investing in our city'. This is the mayor telling me this and that's the level of foresight. Now was I impressed? Yes I was. This guy wants to promote business in his city. In Poland they are called presidents, the President of that... whatever. Similar in Wroclaw many years back, even earlier, in 2007... we went there in 2007 December. Crazy – the kinds of things the mayor or the city council does to promote business in the city – it's incredible.”

As the quote emphasizes, the argument that the state is absent is not valid. The institutional configuration of CEEs has been designed in such a way that it now contains a range of built-in support mechanisms to attract and retain foreign capital within the business services industry. I recognise that the quote offers a characterisation of Poland and perhaps only contours an institutional template for the CEE region, rather than directly speaking about the Romanian context. I do not have any specific interview data related to Romania – this is a shortcoming that can be mitigated by future research.

Institutional State Support in the Romanian Business Services Sector: The Allocation of Cash Incentives

Next, I will look at another type of institutional support that is awarded to the business services industry in the form of cash incentives (Bursa, 2016; News, 2016). This mechanism adopted and implemented by domestic political players to support the development of the industry is also in stark contrast to the argument made by my industry representatives of weak state support and lack of implication. The aid offered by the state to the industry actually translates into a form of institutional collaboration between the two categories of elites.

From the European Commission's point of view, cash incentives awarded to foreign capital are regarded as state aid and thus, they fall under the regulation of the Commission. EU legislation imposes certain limitations on the degree of aid awarded to each region within the EU taking into account factors such as the level of development

and urbanisation, the regional level of GDP, the regional level of unemployment etc. The Romanian state favours underdeveloped regions and the purpose of cash incentives is to trigger the growth and development of tier-two and tier-three regions, such as smaller towns and even rural areas. To drive the growth and the ‘catching up’ of these underdeveloped regions, domestic political elites are offering larger levels of investment aid in comparison to the levels offered to tier-one locations (ABSL, 2015). According to the ABSL technical reports that I analysed, this differentiated cash incentive system resulted in the creation of an inter-regional competition between the primary and secondary regions to attract aid.

Table 7.3 Cash Incentives by Region

Region	Level of Aid	Aid Intensity
Bucharest	Up to \$12.4 million	15%
	Up to \$8.2 million (after 01/01/2018)	10% (after 01/01/2018)
West and Ilfov regions	Up to \$28.9 million	35%
Other regions	Up to \$41 million	50%

Source: ABSL, 2015.

As with access to land, cash incentives are not restricted to the Romanian political economy and are utilised as an institutional support mechanism by all economies within the CEE region (ABSL, 2015). As Table 7.4 shows, cash incentives are of different types (based on job creation, training, vocational training, government grants) and have various eligibility criteria that the investor has to adhere to in order to receive the aid. The fact that cash incentives are a recurrent type of institutional support throughout the CEE region shows that domestic political elites have created a collaborative system with foreign elites in each national political economy, which makes it attractive for MNCs to establish subsidiaries and grow their businesses.

Table 7.4 Cash Incentives by CEE Country

Country	Cash Incentive Type	Eligibility Criteria
Czech Republic	<p>Job creation: up to \$8,000 per employee</p> <p>Training and retraining: up to 25% (large), 35% (medium), 45% (small) depending on size of the firm calculated from the total cost of training or retraining</p>	<ul style="list-style-type: none"> - The beneficiary shall not start work on the project prior to issuance the incentive - Creation of at least 40 jobs at software development centres - Creation of at least 100 jobs at other SSC - Available only in districts with at least 50% higher unemployment than the national average - The beneficiary shall not start work on the project prior to issuance the incentive - Creation of at least 40 jobs at software development centres - Creation of at least 100 jobs at other SSC
Hungary	<p>“VIP” investment subsidies – the level of subsidy is decided individually by the Hungarian Government. Eligible costs are 24 months of salary and contribution for new employees employed within a three-year period</p> <p>“VIP” training subsidy – for training employees hired to new positions</p> <ul style="list-style-type: none"> - Up to \$1.1 million (if 50 to 500 jobs created) - Up to \$2.2 million (if more than 500 jobs created) - Maximum aid intensity – 60% (general training) or 25% (special training) <p>“VIP” job creation subsidy. Maximum subsidy up to \$3.3 million depending on location of investment and number of jobs created</p> <p>“VIP” vocational training. Available for establishing vocational training facilities</p> <ul style="list-style-type: none"> - Up to \$8,800 per student but the total subsidy cannot exceed \$2.2 million 	<ul style="list-style-type: none"> - At least \$11 million of the investment costs - At least 100 new jobs created (200 new jobs in Central Hungary) - At least 50 jobs created - At least 250 jobs created in disadvantaged region; or - At least 150 created in the least-developed regions - The number of vocational school students with training agreements has to be increased by at least 50 comparing to the average number of trainees in the two school-years prior to the submission of the subsidy request
Poland	<p>Polish Governmental Grants (PGG): agreement between Ministry of Economy and investor.</p> <p>Level of support per job ranges between \$850 and \$4,100, and depends on: number of jobs created, quality of jobs created, type and degree of sophistication of rendered processes, and other criteria.</p>	<p>For BPOs/SSCs:</p> <ul style="list-style-type: none"> - at least 250 new jobs (created over up to 5 years) - \$400,000 investment outlays <p>For R&D centres:</p> <ul style="list-style-type: none"> - at least 35 new jobs for graduates (created over up to 5 years) - \$375,000 investment outlays
Slovakia	Contribution for the newly created jobs: up to \$14,530 per job created	<ul style="list-style-type: none"> - Minimum investment of \$440,000 on the fixed assets acquirement - At least \$220,000 covered by own equity - At least 60% of employees hired must have university education - At least 40 new jobs created

Source: table compiled from ABSL data (2015).

Institutional State Support in the Romanian Business Services Sector: The Allocation of Tax Incentives

In parallel to the institutional support measure of cash incentives facilitated by the Romanian state, domestic political players offer a range of tax incentives to stimulate the growth and development of business services – I will examine the tax incentives in the next section. This is also an argument that supports the issue of state implication and the fact that there is a collaborative alliance between domestic and foreign elites. The types of tax incentives offered by the Romanian state to foreign business services investors include: tax exemption for profits reinvested in certain new non-current assets, an additional deductible allowance of 50 per cent for eligible expenses related to R&D activities, tax deferral related to the use of accelerated tax depreciation for specific categories of assets, the postponement of VAT for imported goods (VAT reverse-charge mechanism for import) and a customs duties suspension procedure (ABSL, 2015).

Tax incentives are institutional support mechanisms that are prevalent throughout the entire CEE region and not solely restricted to the configuration of the Romanian business services sector. The fact that there is a robust similarity across the portfolio of incentives – land provision, cash incentives and tax incentives – used across the CEE political economies to attract foreign capital, indicates a high level of institutional coherence between these states in terms of the nature of state implication and what is the effect of the state apparatus on the industry.

Table 7.5 Tax Incentives by CEE Country

Country	Cash Incentive Type	Eligibility Criteria
Czech Republic	<ul style="list-style-type: none"> - Corporate income tax relief for up to 10 years for new companies, up to the amount of maximum aid intensity - Partial corporate income tax relief for up to 10 years for existing companies 	<ul style="list-style-type: none"> - The beneficiary shall not start work on the project prior to issuance the incentive - Creation of at least 40 jobs at software development centres - Creation of at least 100 jobs at other SSC
Hungary	<p>Development tax incentive</p> <ul style="list-style-type: none"> - For up to 10 years (beginning one the development is completed) - Up to 80% of the tax payable <p>CIT and LBT (Local Business Tax) incentives</p> <ul style="list-style-type: none"> - The amount of allowance may be up to 12 months of total salary expenses (50% of 24 months of salary for new employees) and contributions for newly hired employees - The LBT base may be reduced by HUF 1 M (around USD 3,500) per each additional employee in the year the employee is hired 	<ul style="list-style-type: none"> - Aggregated eligible costs of the investment above \$110 million - The investment must have the current value of at least \$11 million - The investment must result in job creation - The investment must result in the creation of new facilities or the extension of existing facilities - The investment must result in substantial change of products/services provided or production/services processed <p>Tax allowance depending on the job creation and the location of SSC</p>
Poland	<p>A special economic zone (SEZ). Currently, there are 14 special economic zones which are to exist until 31 December 2026.</p> <p>Form of support and aid intensity:</p> <ul style="list-style-type: none"> - exemption from CIT for the incomes realised within the SEZ (the current CIT in Poland is 19%) - exemption capped according to regional map of aid intensity <p>Basis for aid limit:</p> <ul style="list-style-type: none"> - investment costs; or - two-year labour costs of new hires <p>CIT base deduction for new technologies. Investment in new technologies (purchase of intangible assets), especially in R&D work results, which enable a company to produce new or improved products or services.</p> <p>The amount of expenditure (initial value) incurred for the acquisition of new technology in the tax year, or the following year, in which it was registered in accounting records.</p> <p>Level of incentive:</p> <ul style="list-style-type: none"> - 50% of eligible expenditure - in case of loss – possibility of 3 year carry forward 	<ul style="list-style-type: none"> - Minimum value of eligible investment costs: \$110.000 - Certain employment level is required – negotiated with the management of SEZ - SEZ permit must be obtained by the company who plans to establish the investment in SEZ - Investment shall be located within the SEZ territory - Usage depends on revenues generated by the end of the zone existence - EC law on regional aid for investments must be complied with <ul style="list-style-type: none"> - Purchase of technology in form of intangible assets (e.g. licenses, patents, know-how) - Technology has been used for less than 5 years worldwide - Opinion, issued by an independent scientific unit, confirming that the technology is new - The entity benefiting from deduction must not transfer the rights to new technology to any other institution before the end of the third year from the date of deduction - CIT base reduction is not available for entities operating in SEZ - CIT base reduction does not apply in the case of reimbursement of expenditures from other sources of public aid

Slovakia	Income tax relief – up to 50% of aid intensity (Zone A and B), up to 38% of aid intensity (Zone C)	<ul style="list-style-type: none"> - Minimum investment of \$440,000 on the fixed assets acquirement - At least \$220,000 must be covered by own equity - At least 60% of employees hired must have university education - At least 40 new jobs created
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Source: table compiled from ABSL data (2015).

Institutional State Support in the Romanian Business Services Sector: The ‘Special’ Income Tax Exemption for Software Development

According to 9 out of 20 industry representatives, the principal institutional support measure implemented by domestic political elites was the income tax exemption of 16 per cent for employees participating in software development works.⁷⁵ This institutional measure was designed and implemented in 2001 (Accace, 2014; ZDNet, 2014). The income tax exemption as an institutional measure was not, however, specifically designed for the business services sector (Outsourcing Portal, 2016). Instead, the Romanian government initially proposed and implemented it to support the ICT sector, before it was extended to the business services institutional order. Starting from 2001 to 2013, Order 835/2015 of the Ministry of Public Finance clearly highlighted 14 specialisations as part of the income tax exemption scheme (City Square, 2017).

Table 7.6 Specialisations Accepted under the Ministry of Public Finance Order 835/2015 for the Software Development 16 per cent Income Tax Exemption	
No.	Specialisation Type
1	Automation and Industrial Information Technology
2	Computers; Electrical Engineering and Computers
3	Electronics; Applied Electronics; Electronics and Telecommunications; Communication
4	Mathematics; Computer Mathematics
5	Information Technology; Economic Information Technology; Applied Information Technology
6	Cybernetics and Economic Information Technology; Cybernetics and Economic Forecasting; Economic Statistics and Forecasting; Accounting and Management Information Technology
7	Computers and Computer Systems for National Defence and Security; Information Engineering; Information Technology
8	Industrial Information Technology; Applied Information Technology in Electrical Engineering; Applied Information Technology in Materials Engineering; Applied Mathematics and Computer Science in Engineering
9	Economic Cybernetics
10	Physics Information Technology
11	Chemistry Information Technology
12	Applied Automation and Information Technology; Modelling Equipment; Simulation and Computerization of Combat Actions; Multimedia Systems Engineering;
13	Telecommunications Technologies and Systems; Remote Controls and Electronics in Transport
14	Transmissions; Military Electronic Equipment and Systems

Source: City Square, 2017.

Between 2013 and 2015, the institutional measure underwent a process of tailoring, and as of the 1st of September 2015 the legislation was relaxed (Accace, 2015a). The newly revised institutional support measure provided a wider and more inclusive occupational delimitation for the legislation, rather than it being solely restricted to 14 specialisations

⁷⁵ Interviews: BS_1, BS_2, BS_3, BS_4, BS_8, BS_9, BS_13, BS_14, BS_17.

in the ICT sector. As of January 2017, an auxiliary legislative procedure that came in support of the institutional measure was passed, thus eliminating one of the financial conditions of the income tax exemption incentive – more specifically, the condition of earning an annual income of at least \$10,000 for each employee subject to the exemption (Start Up, 2017; Hot News, 2017). Starting from 1st of February 2018, employees who do not hold an ICT-related diploma (but that were enrolled in university or a higher education short-term course) can be included in the income tax exemption for software development (Avocatnet, 2018). Hence, domestic political elites attempted to loosen up the application of the institutional support measure even further.⁷⁶

What has been strongly emphasized by my industry representatives is that the 16 per cent income tax exemption offers the Romanian business services sector a considerable competitive advantage vis-à-vis the other CEE political economies. The executive director of a business services MNC in Timișoara outlines the effect of this incentive very well (interview code BS_8):

“This was and is a huge competitive advantage for Romania. I don’t know whether this is fair to the other countries in the EU which don’t have such incentives for the business services industry. You can underline that this incentive should not be seen as a tax exemption but as an investment. The Romanian government [...] thought of this [incentive] as an investment – it’s not taking from us [MNC] 1 Romanian Leu and as a result we generate between 6 and 15 Romanian Lei value added. A calculus was made and the return on investment is from 6 to 15 Romanian Lei.”

The most important aspect that the quote highlights is the fact that this institutional measure was designed and implemented by the state in order to support the development of the business services sector. Thus, what can be seen is a strong state presence rather than the weak state support and the lack of state implication. The relationship between domestic and foreign elites, as emphasized previously, is one based on collaboration – the state is attempting attract and retain foreign capital by offering a range of institutional support measures in order to create a wholesome institutional context and perhaps compensate for existing insufficiencies present in the

⁷⁶ The financial condition of earning an annual income of at least \$10,000 for each employee to be subject to the exemption was however reintroduced in July 2017 (Jurnalul, 2017).

wider political economy. According to the executive director of a business services MNC based in Bucharest (interview code BS_2):

“A very important decision made by... frankly my political knowledge doesn’t allow me to remember who was the decision-maker behind this. A very important decision was the elimination of the income tax for IT graduates in software exporting companies. This gave us a lot as an industry, because from here a lot [of MNCs] started to come in. The moment that companies started to be able to offer higher salaries to IT graduates by not paying these taxes [income taxes], they [MNCs] started to come more and more to Romania and I think that that’s where it all began. It’s an important factor. A legislation that allows companies to open subsidiaries here and that gives them some fiscal incentives for specific areas such as the IT area in this case.”

The interviewee emphasizes a very significant aspect here – the power that the state or domestic political elites have to create, shape and direct legislation in such a way that it alters the institutional configuration of an industry and consequently, the institutional outcome for industry players. The state apparatus drives institutional change, and it is neither weak nor absent.

7.4.2 MNCs, Education and Institutional Change in the Business Services Sector

When analysing the institutional particularities of the business services sector, we observe how the educational system moulded itself and was moulded by representatives of foreign capital, in order to respond to firms’ needs and to create a form of institutional support for the representatives in the sector. Hence, my argument is that education acts as a force of change with which the MNCs engage and interact within the institutional context of the industry. Together the two elements have driven a variety of institutional measures, shaping the direction of the industrial order as I shall elaborate below.

Despite my interviewees’ continuous emphasis of the fact that domestic elites are insufficiently involved in supporting the development of the sector, eight out of 20 industry representatives noted that in recent years, especially since 2012-2013, there has been a greater willingness of the governing bodies to open channels of communication

and engage in development programmes with the representatives of business services.⁷⁷ However, it has been pointed out by these informants that the stimulation and support of the industry has been very limited and has been facilitated very late, with the all the ‘heavy-lifting’ actually being undertaken by the MNCs from industry inception in 2003-2004 and throughout the entire period of institutional growth. These statements must not be taken for granted. As I demonstrate below, the Romanian state plays a significant role within the institutional structure of the sector via the educational partnerships established and the support given to MNCs via the educational system.

My interview data makes it clear that MNCs have established and are establishing channels of communication and collaborative networks with various state authorities and institutions, in order to create an institutional support mechanism that underpins the entire business services sector. These channels of communication and collaborative networks include: 1) joint university programmes and tailored university curricula, 2) collaborations with local and regional training and recruitment agencies, and 3) consultations with governing bodies on improving transparency within the broader legislative system, the standardisation of accounting practices and financial data disclosure, the simplification of tax structures and the elimination of bureaucracy. The executive director of a MNC subsidiary located in Timișoara illustrates this situation very well (interview code BS_9):

“We are trying to develop this communication with the supporting horizontal bodies. We are engaging in a dialogue with universities and training agencies. This dialogue takes place on an ad hoc basis, meetings take place.”

What is highlighted in the quote is the special importance given to the alliance established with the educational institutional pillar. Nine out of 20 industry representatives argue that the most important collaborative institutional arrangements in the sector are the educational programmes established by MNCs in cooperation with universities.⁷⁸ According to my interviewees, this institutional collaboration should take place between three categories of players: the industry (MNCs), the state (domestic political elites) and educational institutions, which in fact are state-owned institutions

⁷⁷ Interviews: BS_1, BS_2, BS_8, BS_9, BS_12, BS_13, BS_14, BS_15.

⁷⁸ Interviews: BS_1, BS_2, BS_8, BS_9, BS_12, BS_13, BS_14, BS_15, BS_17.

and an extension of domestic political representatives. The executive director of the business services MNC located in Timișoara argued (interview code BS_9):

“Communication and collaboration should take place between three classic pillars: the industry, the educational institutions and the state. But we cannot say that the state exists in this equation. The state is constantly chasing votes or who knows what, so the state is an actor that we rarely come across in these equations.”

Again, the issue of an absent state and lack of state implication should not be taken for granted. What is important here is the recognition of the three institutional spheres. My argument is that these ‘spheres’ of the political economy interact and mesh together, similar to how institutions communicate and form institutional complementarities within the VoC framework, thus creating an institutional support mechanism for the industry (Aoki, 2000; Hall and Soskice, 2001; Koen, 2005; Jackson and Deeg, 2006; Hall and Gingerich, 2009). This reinforces my earlier argument that the state engages in a form of collaboration with the industry and its players, and through this collaboration it provides various institutional support mechanisms. The business services industry has focused on developing strong ties with local educational institutions, primarily universities.

The dialogue between the business services industry and the educational system exists, and institutionally speaking it takes place at two levels: 1) the meso level – between the industry and Romanian educational system as a whole, and 2) the micro level – between individual firms and various universities and training centres. At the micro level, the majority of MNCs within the sector have established some form of partnership or channel of communication with at least one university. Thirteen industry representatives have a working collaboration with at least one university, engaging in activities such as: offering consultation on the design and implementation of the curriculum of computer science-related courses, actual involvement in the design and delivery of applied IT and business management courses, the organisation of labs/workshop sessions, and the provision of part-time internships to undergraduate students starting even from their first year.⁷⁹ Furthermore, the two senior representatives of the educational system that I interviewed – the Dean and Vice Dean of the Polytechnic Timișoara – highlighted the

⁷⁹ Interviews: BS_1, BS_2, BS_3, BS_4, BS_8, BS_9, BS_12, BS_13, BS_14, BS_15, BS_16, BS_17, BS_18.

existence of several educational partnerships between their institution and (foreign and domestic) business services players in the regional Timișoara hub (interview codes BS_19, BS_20). My review of the business press substantiates the interview data. One example of such a partnership is the formation of the joint programme between the Mathematics and Computers Department of Babeș-Bolyai University and two MNCs from Cluj – AROBS Transilvania Software and Fortech (Actual de Cluj, 2018). The educational partnership sought the delivery of ‘business management’ related modules within the context of IT, more specifically Project Management, Team Work, Entrepreneurship and Communication and Presentation Skills. Another example of educational partnership is that between the Academy of Economical Studies in Bucharest and MNCs such as Microsoft, E&Y and Genpact (Market Watch, 2015; Ziarul Financiar, 2016). Furthermore, the executive director of a MNC subsidiary based in Timișoara illustrated the existence of these firm-university educational partnerships very well (interview code BS_9):

“In terms of the quality of human resources, there is an actual dialogue between the industry and the educational system. We teach three modules at the Polytechnic University, we organise lab training, we have 150 students on placement with part-time contracts.”

Thus, the relationship between MNCs and universities is a strong one, with the representatives of the sector clearly being focused on nurturing these ties in order to have a higher degree of control over the institutional structure of the sector. Furthermore, the case can be made that the institutional configuration of the traditional educational system doesn’t provide MNCs with all the necessary support mechanisms. To compensate for these insufficiencies, MNCs aligned themselves with the educational state institutions to fill the institutional gaps and provide an educational system attuned to industry needs. I would like to emphasize the fact that the formation of alliances is not restricted to only MNCs and universities; instead, domestic business services companies also engage in collaborative arrangements with educational institutions.

It has emerged in five of my interviews that the intensity of this relationship between educational institutions and MNCs is driven by the MNCs rather than the educational institutions. The same can be said about the dynamic between educational institutions and domestic business services firms – the intensity of the relationship is driven by the private domestic firms rather than the representatives of the educational system.

According to my interviewees, the ‘push’ comes from the MNCs, whereas universities often have a certain reluctance to engage in collaboration. What the industry players want to highlight again is the lack of implication that characterises the domestic elites and the fact that the context is defined by a weak political apparatus. According to one sector representative (interview code BS_8):

“The relationship is strong but from our side towards them. What we see with the Polytechnic and other universities in general to a smaller or larger extent is a reluctance, an unjustified conservatism. It is probably in the culture of these institutions. Considering our historical legacies, sometimes personal interest dominates and as a result the actions of the institution are at time illogical.”

Similarly, the executive director of a MNC based in Bucharest stated (interview code BS_2):

“I create the jobs, I add value to the economy, I design the development programme, I do all of the work, I put it [development programme] in your lap, and you [the state authorities] throw it out the window. So I do all of the work and this is how you treat me as an investor in your economy? I create the jobs and I come with an optimisation solution, and you don’t give me anything back.”

This type of assessment must again not be taken at face value. From my research it has become evident that in the majority of cases propositions of optimisation of the institutional context are initiated by foreign capital, with the few remaining cases being initiated by domestic capital and its representatives. Initiatives are then advanced to domestic political elites, who may or may not translate them into practical institutional measures. This process has been described by 11 of my research candidates as a case of one-sided communication that often results in business services representatives being disconcerted by the lack of proactivity and willingness of the governing bodies to jointly pursue and participate in the development of the sector.⁸⁰ I believe that industry representatives have an expectation for them to be the ones pursued by domestic political elites with propositions for institutional optimisation and growth. Moreover, I believe that this failed expectation is the reason behind my interviewees’ claim that

⁸⁰ Interviews: BS_1, BS_2, BS_3, BS_4, BS_5, BS_6, BS_8, BS_9, BS_12, BS_14, BS_17.

there is a lack of state implication. State implication does exist, but perhaps not to the extent and in the way in which industry representatives would want it to be. That however does not mean that institutional participation and support is not there. I have given ample examples from both my interview data and the industry press of micro-level institutional collaboration between MNCs and educational institutions. One industry representative after emphasizing that there is a lack of state implication asserted (interview code BS_12):

“I was surprised to see that the state authorities are open to discussions. There are various meetings with ministers, counsellors, secretaries of state.”

Similarly, another executive director after claiming that the state does not exist argued (interview code BS_9):

“At the Polytechnic, there is an executive committee that is formed from the local representatives of the industry.”

What the two quotes highlight is the clear presence of the state within the development of the industry through the provision of educational support. There is a clear collaboration between MNCs and domestic political representatives, and MNCs and education, which is translated into discussions and consultations, but also the implementation of actual programmes and adapted curricula. Business representatives are integrated into educational state institutions in order to ensure that industry needs are passed on and incorporated into the education and training of graduates.

Evidence of state implication and the collaboration between the two institutional spheres emerges at the meso level as well – between the industry and Romanian educational system as a whole. To compensate for the institutional insufficiencies and inadequate support provided by the traditional educational system, a group of executives from a few of the major business services MNCs formed an industry-wide body called the Association of Business Service Leaders in Romania (ABSL), in order to push for the desired level of institutional support. In other words, due to an inadequate institutional framework provided by the educational system or the existence of an institutional void, MNCs decided to create their own private representative body that could interact directly with the state and its related institutions and in the process, provide the sector with the institutional support that it needed. According to one executive director and founding member of ABSL (interview code BS_14):

“So I would actually strongly say that the sector has emerged inspite of the government, not because but inspite (laughs), because business has grown but there has been no support in fact, what we did, what I did, many years back I got together with other players in the industry and we even created a body called ABSL, the Association of Business Services.”

From my interviews with four senior level ABSL members,⁸¹ it has emerged that the association focuses on the development and implementation of three major institutional measures. The first measure is knowledge sharing amongst ABSL members. What the association is trying to achieve is the creation of a continuous informational transfer between market players on issues such as market intelligence, technological innovations, and legislative and fiscal practices.

The second measure focuses on educational partnerships. ABSL seeks to re-model the curricula of computer science schools and develop joint programmes with universities, in order to ensure the delivery of more practical and market-oriented modules to students, so that when they graduate their skill sets are much more tailored to what business services employers are looking for. The aim of ABSL is to act as a facilitator of institutional support between industry players and universities at the micro-level, as well as to push for communication and collaboration between the industry as a whole and the Romanian educational system. Thus, ABSL’s educational partnerships programme is an additional support mechanisms that complements the independent collaborative arrangements that a wide array of MNCs have established with different universities.

The third and last measure concentrates on managing relations with the governing bodies. What ABSL attempts to do is establish joint partnerships and an on-going consultation process with the government and the regional and local level authorities, in order support the development of the industry. According to my interviewees, this interaction is sought because economic players need predictability and stability.⁸² In order to have such an institutional context, MNCs need to receive a constant flow of information from domestic elites, but also to communicate their needs to these political officials so that they in return can implement different measures. The argument that can be made is that the interaction between MNCs and domestic political elites is a strong

⁸¹ Interviews: BS_12, BS_13, BS_14, BS_16.

⁸² Interviews: BS_1, BS_3, BS_12, BS_13, BS_14.

one. There is a continuous collaboration between the two institutional spheres, with MNCs coming to the state apparatus to ask for the implementation of various support measure to compensate for institutional insufficiencies, and with the state providing MNCs with a series of incentives to attract foreign capital and support the development of the industry.

Thus, my argument is that the interaction between MNCs – or the representatives of business services – and education has resulted in a series of institutional changes. More precisely, this institutional collaboration has created a support system, or in fact a bifurcation in the educational system in the form of a joint educational partnership between MNCs and universities, which exists in parallel to the traditional system of education and complements the existing learning resources.

7.4.3 MNCs, Labour and Institutional Change in the Business Services Sector

In order to capture a rich picture of all the social actors permeating the institutional configuration of the business services sector and to thickly describe the internal dynamics between these actors (Geertz, 1973), I analyse the role and position of labour vis-à-vis MNCs and domestic elites. By investigating the diverging identities of these different types of actors, I can develop a better understanding of the elite in relation to non-elite categories, and as such the diverging hierarchical positioning of actors, their roles and the extent of their powers.

To understand what kind of interaction takes places between these two categories of players and how this interaction influences the institutional setting, I have analysed the type of labour legislation that defines the sector and the transformative labour policies that have been implemented by political players and pushed for by industry representatives. Furthermore, I have examined the power of labour to organise and consult and in the process, exert changes on the institutional configuration of the sector, as well as the overall sector-wide sentiment towards the formation of trade unions.

In the following section, I focus on the flexibilisation of labour legislation through the implementation of informal work contracts. Business services MNCs have stimulated the creation of a new variant of labour market institutions alongside the more protectionist coordinated model, oriented towards informal work and institutional frameworks. In comparison to the complex hierarchical networks organising industrial

sectors such as coal mining and automobile manufacturing, the business services sector displays large degrees of mobility and flexibility (Capik and Drahokoupil, 2011). The literature also highlights that untrammelled flexibility and a high turnover are typical characteristics defining the business services sector (Dølvik and Waddington, 2002). To put it differently, there is a prevalence of LME institutional particularities such as a high incidence of flexible work – part-time and teleworking contracts – and a high proportion of pre-determined working contracts – a fixed-term work agreement that is valid only temporarily for a specified time indicated by the employer (Nölke and Vliegenthart, 2009; Myant and Drahokoupil, 2011; Ban, 2013; Martin, 2013;). The findings in all of my interviews confirm this broader regional trend: the sector in Romania is characterised by a high proportion of informal work contracts in the form of part-time work, teleworking formats and pre-determined or fixed term contracts. All 11 sample firms included in my research have implemented informal work contracts. This central finding is corroborated by the Romanian business press, which emphasizes the significant proportion of informal work, especially part-time contracts, within the IT enabled services sector (Adevărul, 2018). According to a study undertaken by Accace (2015b), flexi work is the institutional work format that defines the business services sector. Furthermore, the study highlighted the fact that the industry is highly diverse when it comes to work formats, with the majority of industry players opting to set-up pre-determined work contracts that last for the duration of the project or task at hand, implementing flexible work formats such as flexi-time or teleworking during these fixed term contracts (Wall Street Journal, 2015).

According to 7 out of 20 representatives of the sector,⁸³ the lack of cohesion between the institutional make-up of the sector and the institutional underpinnings of the classic work contracts and formats that were of a more protectionist and coordinated nature, resulted in MNCs pushing for the formation of informal work contracts. The classic labour model in Romania is defined by complex structures and cumbersome bureaucratic procedures. The work formats are characterised by rigidity, with well-defined timeframes and fixed locations. In contrast, the institutional configuration of labour proposed by the business services sector is situated at the opposite end of the spectrum (Fifekova and Hardy, 2010; Sass, 2010; Capik and Drahokoupil, 2011). Instead of institutional rigidity and a clear-cut structure, the work format is defined loose legislative frameworks and flexible spatial-temporal parameters. Thus, the classic

⁸³ Interviews: BS_5, BS_6, BS_8, BS_9, BS_12, BS_14, BS_18.

labour model did not provide the sector with an adequate institutional context to undertake its activities profitably.

To overcome the complex structure and cumbersome bureaucratic procedures imposed by the classic labour model, business services MNCs lobbied domestic political elites, pushing for the design and implementation of a flexible legislative framework for employment (Ban, 2013). The executive director of one of the main business services players in Bucharest illustrates this lobbying effort (interview code BS_12). According to him:

“There is a greater degree of mobility that defines the current work framework, whereas the classic work model based on a fixed working schedule and location is no longer the rule.”

The interviewee points out that what can be observed is the de-localisation and the de-temporalisation of work, with work being undertaken remotely and based on the availability of the employee.

I will now move on to discuss the flexibilisation of labour legislation through the implementation of temporary work. The creation of a new variant of labour market institutions alongside the classic labour model was further driven by the introduction of temporary employment which is an institutional element associated with the deregulated labour market model typical of liberal market varieties (Hall and Soskice, 2001; Krippner, 2005; Clark and Almond, 2006; Hall and Gingerich, 2009; Deeg, 2012; Doellgast, 2012; Gospel and Edwards, 2012). Three business services representatives highlight that there is an increasing phenomenon amongst the players in the sector to go through a temporary work agency and hire temporary employees.⁸⁴ The CEO of one of the companies in my research sample and founding member of ABSL emphasized the fact that this flexibilisation provides a ‘work-around’ from formal procedures of hiring and firing, but especially when it comes to firing, shifting the risk and the burden to the temporary work agency (interview code BS_12). The interviewee highlighted that this significantly simplifies the process of firing based on performance criteria, as the MNC is exempted from the Labour Code firing procedures and the obligation falls on the agency to either completely withdraw their employee or replace him.

⁸⁴ Interviews: BS_9, BS_12, BS_13.

The findings emanating from my interviews are mirrored by information that I have unearthed within the business press. According to Cariere (2016), the number of temporary employees has risen throughout all industries in Romania; however, the industries that utilise the highest proportion of temporary employment are the IT and business services industries. Furthermore, the publication highlights that temporary employees are utilised for an entire range of activities and positions from lower-end basic jobs to senior managerial positions. According to the CEO of a major business services MNC in Bucharest (interview code BS_12), around 20 percent of the industry's total workforce is contracted through temporary work agreements. However, the interviewee highlighted that this is a relatively recent phenomenon within the Romanian context and that we are likely to observe a growth in this trend as time will pass. Furthermore, the interviewee emphasized that the proportion of temporary work contracts varies with each job position and that some areas of business services have a higher incidence of informal work arrangements. More specifically, the interviewee claimed that temporary work contracts are more prevalent in the more downstream, low value-added, support-related activities and that companies usually like to have tight control and retain people in the more upstream, high value-added, creative activities such as design and development.

The implementation of these flexible labour procedures shifts the balance of power towards the employer vis-à-vis the institutional framework of the classic labour model, where the employee benefits from greater protection and a stronger safety net. As I have highlighted, the classic labour model displays a higher incidence of CME-like institutional traits such as a regulated labour market, 'employee friendly' legislative changes and a more significant scope for 'employee voice' (Hall and Soskice, 2001; Vogel, 2006; Bosch and Weinkopf, 2008; Hall and Gingerich, 2009; Jackson, 2009; Jackson and Sorge, 2012).

Along with the flexibilisation of work formats, MNCs intensively lobbied for the reduction of bureaucratic procedures, in order to ease the process of hiring and firing employees. It has emerged in 14 of my interviews with industry representatives that the bureaucratic context is dominated by excessive procedures and documentation for companies, thus preventing employers from having a timely response to the MNC's needs.⁸⁵ According to six executive directors, there is an urgent need to eliminate some

⁸⁵ Interviews: BS_1, BS_2, BS_3, BS_4, BS_5, BS_6, B_8, BS_9, BS_10, BS_11, BS_12, BS_14, BS_16, BS_16.

elements of state bureaucracy in order for MNCs to have access to a steady supply of human capital.⁸⁶ The current legislative structure makes it very difficult for managers to fire employees. One senior director illustrates this scenario very well (interview code BS_12):

“Regarding the introduction of legislation and the need to introduce policies that offer the employer more flexibility [...] if you ask me I feel that legislation should be more flexible. I was telling you earlier; it shouldn’t take me 3 months to terminate an employment contract after having to go through 10,000 improvement plans, disciplinary committees and committee documentation.”

Similarly, the executive director of a major subsidiary in Bucharest and founding member of ABSL reinforces this aspect (interview code BS_14):

“A very far from ‘hire and fire’ culture. We have a ‘hire’ no ‘fire’ [interviewee laughs]. ‘Hire and keep’ [interviewee laughs]. It’s impossible to get rid of people and regardless whether it’s for performance grounds or for business reasons. So if my business is winding down and I need to separate employees by paying them compensation etc, I mean we can do that but not if the employee goes on medical leave and they can continue going on medical leave, so every few days they can go on medical leave. And I have people who are doing that for three months – can’t do anything! [...] The rules need to be more relaxed or made business friendly. And I don’t mean the American way. In America if I don’t like your face I say ‘you’re fired! You’re out’ – I don’t mean going that way, but definitely where we are right now is the opposite, it’s the other extreme. But it’s improving, there are things like... for example there was a relaxation in terms of notice periods I think last year or the year before. Earlier for many years an employee could leave you with a 15 day notice, now in most cases for our business and it depends more and more on how complex the job is... it takes you three months to train an employee and he can leave you in 15 days. So three months to train, two weeks to find, you are all the time training people – you become like a training shop. So some things were improved – the notice period was adjusted, it became between 21 days

⁸⁶ Interviews: BS_2, BS_8, BS_9, BS_14, BS_12, BS_16.

minimum by law up to 45 days at a managerial level, so some things became a little better, but there are still huge issues on which we can work.”

In terms of implementing a ‘hire and fire’ culture, the Romanian political economy has not converged towards the liberal market variety of capitalism, where liberalising forces overpower the neo-corporatist alliance between labour and capital, and all sense of labour protection is dismantled (Cernat, 2006; Nölke and Vligenthart, 2009; Ban, 2013; Bohle and Greskovits, 2013). As my interviewees point out, there are still pro-labour institutional measures in place that offer employees a degree of protection. While domestic political elites facilitated the flexibilisation of work formats and labour legislation – in the process, dismantling a large proportion of cumbersome practices and streamlining bureaucratic processes – the state apparatus didn’t allow (foreign) capital to completely dominate domestic labour. I analysed the Labour Code to verify my interviewee’s claims and there has indeed been an extension of the notice period. According to Article 75 of the Labour Code, employees need to give employers a notice period no shorter than 20 days in order to terminate their individual work contract (Codul Muncii, 2018a). Furthermore, Article 75 also states that upon establishing the individual and collective work contract, employers can ask employees for a notice period longer than the 20 days stipulated by law. The relaxation of notice periods and the capacity of employers to extend them indicate an incremental and adaptive institutional change that domestic political elites have implemented in response to the industry’s needs. In my opinion, this evidence shows that the state is trying to create an institutional environment that is favourable to employers – domestic and foreign business services companies – without however completely deligitimising labour by creating an institutional configuration that is fully open and deregulated as we observe in the LME model.

My research findings mirror those of the wider literature on the fact that the institutional configuration of industrial relations within business services is weak. All 11 sample firms I examined have institutionalised collective bargaining at the firm-level, effectively blocking the institutional possibility for any higher level of labour organisation. The level of unionisation is very low throughout the entire sector. According to one executive director (interview code BS_12), there is no exact data regarding union density; however, the figure is below 10 per cent. Moreover, out of my

sample of 11 firms only two had a trade union – this is another indicator of the low level of unionisation prevalent throughout the sector.⁸⁷

The institutional configuration of industrial relations was further weakened by the New Labour Code that introduced an institutional alternative to unionisation. I will provide evidence below how this addition to the existing institutional framework resulted in a further downgrading of the powers and legitimacy of labour vis-à-vis (foreign) capital.

Employees' representatives are a form of collective organisation designed in 2011 during the period of modification of the labour and social dialogue legislation. Five out of the 11 business services MNCs that I investigated have a so called employees' representatives body.⁸⁸ Based on my analysis of the legislation underpinning trade unions versus the legislation underpinning employees' representatives,⁸⁹ my assessment is that employees' representatives are a weaker form of organisation than trade unions. I have identified seven elements where the new legislation weakens the position of workers in the labour institutional configuration. First, the role of employees' representatives is insufficiently defined in the Labour Code – that is, the extent of their powers and attributions is not clear. Second, in negotiations with employers' associations, trade unions can receive support from trade union federations and confederations, whereas employee' representatives receive no formal external assistance when dealing with the employer, thus reducing their capacity to pool expertise and resources. Third, trade unions can assist their members before a disciplinary committee, in a court of law or in any other state institution, while employees' representatives do not have this institutional capacity. Fourth, an employees' representatives body cannot financially support its members or raise a collective fund, nor can it undertake training courses to ensure the qualification of its members. Fifth, employees' representatives are not allowed to form alliances with the employees' representatives of another company in order to form a federation or to influence collective bargaining at the group- or sector-level. Sixth, employees' representatives cannot engage in social dialogue with the government and employers' associations to negotiate sector- and national-level working conditions. Finally, the composition of employees' representatives is not clearly defined

⁸⁷ The two firms out of my sample with a trade union are Nokia and Wipro.

⁸⁸ The MNCs with an employees' representatives body include: Ipsos, IBM, Veeam, Microsoft, Endava.

⁸⁹ Source: Labour Code update 2018, Law 53/2003, Trade Unions, Articles 214-220; Labour Code update 2018, Law 53/2003 (Codul Muncii, 2018b), Employees' Representatives, Articles 221-226 (Codul Muncii, 2018c).

in the Labour Code, with managers having the possibility to join this form of collective labour organisation.

The behaviour of industry representatives towards trade unions is another aspect that I want to examine, and more precisely, whether in the context of Romanian business services we can observe the presence of anti-trade union behaviour. Capik and Drahokoupil (2011) highlight the existence of anti-trade union behaviours present in some of these foreign-owned business services companies in the CEE region, which they claim reinforces a context defined by poorly-organised industrial relations and atypical work relationships. Similarly, Galgóczi (2003) talks about MNC subsidiaries across the CEE region in which trade union leaders were threatened by management. Although I have not come across anti-trade union behaviours during my interviews, I do recognise that my firm sample is limited and thus, it can fail to capture the whole extent of qualitative insights representative of Romanian business services. What I did unearth in my interviews is the complete lack of knowledge of several MNC senior executives regarding unionisation within the sector. The executive director of a MNC in Bucharest captures the story of the lack of knowledge about trade unions and industrial relations very well when answering the question “What can you say about organised labour within the Romania business services sector?” (interview code BS_13):

“[Long period of silence, then interviewee sighs] I don’t have any knowledge on this subject.”

I further probed asking “What are the unionisation tendencies that characterise the sector?”, upon which the informant asserted:

“It’s a legal matter. There are companies that have them [trade unions], there are companies that neither have trade unions nor employees’ representatives. I believe that this is a legal issue and it is for employees to decide whether to organise and form these consultation bodies whether they are employees’ representative associations or trade unions. However, I have no information on this topic.”

Four out of 20 industry representatives couldn’t offer any insights to my questions “What can you say about organised labour within the Romania business services sector?” and “How would you characterise unionisation within the Romanian business

services sector?”⁹⁰ This inability of MNC executives to provide information about trade union activity is evidence in itself of the marginal role played by trade unions and the weak self-organisation of labour working in the sector.

During my investigation of the business press, I have uncovered multiple instances of anti-trade union behaviour exerted by MNC managers within the business services sector. According to Economica (2018) and Profit (2018), IT and business services MNCs in Romania are against the formation of trade unions, as this makes the process of establishing a collective labour agreement (CLA) more difficult. According to the publications, there are several very prominent MNCs within the Romanian business services sector that have been avoiding to sign a CLA. The lack of a collective labour agreement enables MNCs to maintain a salary system without a formalised pay scale that allows for massive salary imbalances between employees occupying the same positions.

In conclusion, my argument is that the interaction between MNCs and business services labour has had transformative effects on the labour model of this industrial order. The interaction between the different categories of players has resulted in a flexible institutional template, defined by a prevalence of informal work contracts and temporary work, more streamlined procedures to hire and fire, relatively weak and fragmented industrial relations with low trade union membership and the dismantling of the unique CBA system, and the existence of anti-trade union behaviour.

7.4.4 MNCs, Industrial Upgrading and Institutional Change in the Business Services Sector

The dynamic exchanges between MNCs and industrial upgrading and their effects on the configuration of the sector are elements that require analysis. The aim is to capture how the interaction between MNCs and industrial upgrading results in institutional change and to examine the nature and extent of this instance of institutional change.

The Value Chain Evolution of Romanian Business Services over Time

Initially, in order to demonstrate that the transformative effects of the MNC-industrial upgrading interplay of the internal dynamics of the sector I analyse the value chain evolution of business services. Technological and skills upgrading has been driven by

⁹⁰ Interviews: BS_1, BS_13, BS_15, BS_16.

the foreign investors that have created and captured this industrial order since the inception of the industry in 2003-2004. As a result, there has been an incremental shift and evolution in the value chain, with greater emphasis being placed on value rather than cost efficiencies. The executive director of a leading business services MNC in Bucharest illustrates this value chain shift very well (interview code BS_12):

“At the beginning in 2002-2003 and a few years after that it was only about costs, that so called labour arbitrage. Instead of undertaking some operations with German labour, companies preferred to undertake them with Romanian labour who spoke German at a much lower cost. Throughout the years the aspect of cost mattered but to a much lesser degree, I mean cost is still among the top two competitive advantages. But something new entered the equation, more precisely the aspect of process upgrade that has been pushed, or driven as I like to say, by the foreign companies. Currently when companies search for a location to set up shop, aside from looking at costs they look at the capability of labour to best contribute to optimisation, productivity increase and process adjustment. The way I see it, that value chain has shifted from the emphasis on cost to an emphasis on value.”

By pursuing the process of technological and skills upgrading, business services MNCs have changed the institutional makeup of the sector in terms of the complexity and orientation of activities being performed (Profiroi et al., 2008). Driven by foreign capital, the composition of activities has evolved from low and medium value added IT-enabled services to medium and high value added. According to the senior director of a major business services MNC in Bucharest (interview code BS_18), externalised work in Romania evolved from being task-oriented, to being project-oriented, to finally being platform-oriented. ABSL (2017, 2018a) argues that at the beginning the development of the Romanian sector was not focused on high value-added software product development, advanced business and financial support, critical human resources services, and high-end customer relations processes. Instead, the employers' association body highlights an initial specialisation in low- to medium-end business services. The quoted reason behind this is the 'embryonic' status of the sector and its relatively early phase of development. Furthermore, a different report by ABSL from 2015 corroborates the information provided by my interviewee (interview code BS_12), highlighting that initially MNCs established business services centres in Romania based on cost

differentials. The re-orientation towards more complex and higher added value activities is an indicator of institutional evolution and maturity.

Investment reports (ABSL, 2015, 2017, 2018a) award the Romanian education system a solid ranking, with a strong focus on information technology, and finance-, accounting- and business-related fields, and therefore providing a steady, inexpensive flow of skilled human resources to satisfy the growing demand of ITO, R&D, BPO, SSCs, BIFS, HR and finance and accounting MNCs. According to ABSL (2017), more than 120,000 university graduates form the talent pool of the sector. The high level of education is complemented by strong foreign language proficiencies, covering English, French, Spanish, Italian, German, Hungarian, Portuguese, Czech, Slovak and Bulgarian.

The composition of the product portfolio was re-oriented towards more complex and advanced software products, advanced business and financial support processes, critical human resources services, and high-end customer relations activities (ABSL, 2017). In eight out of the 20 interviews with industry executives, it has also emerged that the spectrum of activities delivered by the sector has been extended, with Romania now delivering a more comprehensive range of business services activities that is focused on the medium to high value-added end of the spectrum.⁹¹ One sector representative captures the story of the enlargement of business services portfolios delivered by MNCs very well (interview code BS_14):

“So if I look at the BPO side, I am doing simple work from talking to customers, solving basic issues like password resets, to complex HR, admin and payroll activities, to highly complex ITO and R&D level 3 work such as designing product embedded systems for customers like [name of world-leading computer technology MNC]”.

The significant increase in the proportion of research and development (R&D) activities is probably the strongest indicator of the evolution towards the higher value added end of the value chain orchestrated by foreign investors. According to the executive of a business services subsidiary in Timișoara (interview code BS_8):

“I would say that strategic direction has started to take shape in Romania, I have heard of investments in legitimate R&D centres in Bucharest, Cluj and Timișoara. In Timișoara we have a business incubator, which aside from

⁹¹ Interviews: BS_1, BS_8, BS_9, BS_12, BS_13, BS_15, BS_17, BS_18.

promoting entrepreneurship also promotes R&D. But think about the fact that we in the 90s were just a pool of resources. We, the ones who worked in IT, were just a bunch of engineers put to execute a range of activities. After the 2000s, the Romanian software ‘factories’ started to exist [...] the next step is now R&D.”

The interviewee further expands:

“Our colleagues have registered patents here [...] The MNC owns [name of R&D lab], if you have heard about it. It is one of the biggest private R&D centres in the world and practically it is owned by us. I must admit that the majority of innovations that get to be developed further through the products of [name of MNC] come from [name of R&D lab]. We [MNC subsidiary in Timișoara] collaborate with [name of R&D lab]. Practically they design a prototype, in between the prototype and the manufacturing stage there are some more industrialised R&D phases. They come to us [MNC subsidiary in Timișoara] and we extend the research and development, and come up with a product that can be put into production. Now, I cannot say that we innovate to such an extent that we revolutionise the entire [name of MNC]; however on some segments we do, on some strategic directions we have the independence to come up with the product design, to innovate, to perform improvements – this is what we are actually doing.”

Nine out of my eleven sample firms are performing R&D activities currently.⁹² Furthermore, all eight firms indicated that they have pursued a gradual transformation throughout time of their portfolio of IT-enabled services in terms of their complexity and added value. Thus, by improving their technological resources, individual MNC players gradually started to perform R&D activities, which combined at a sector-level resulted in a value chain evolution and overall process of industrial upgrading – this constitutes an instance of incremental institutional change.

So far, the proportion of R&D activities is limited within the industry. This is due to the relative infancy of the industrial order. The nine firms from my sample that are undertaking R&D activities have a varying content of R&D. R&D content recorded as percentage of employees involved in R&D activities out of total employment (of the

⁹² The nine firms undertaking R&D activities include Ipsos, IBM, Nokia, HP, Veeam, Microsoft, Wipro, Genpact and Endava.

subsidiary) fluctuates from 10 to 60 per cent. The companies with the highest R&D content have a longer established presence within the Romanian market and thus, my argument is that they had more time to undergo industrial upgrading and shift their value chain from low value added activities to complex, innovative activities.

Nölke and Vligenthart (2009) hypothesise a national variety in CEE, more precisely the Visegrád group, characterised by external dependency – the dependent market economy (DME). Based on their findings, the authors make the assumption that the institutional configuration of CEE economies is designed in such a way that the highly innovative parts of the value chain, such as R&D, are undertaken at the MNC's headquarters. As such, these parts are not sliced and relocated to a country such as Romania that doesn't have the institutional complementarities to support such activities. Högselius argues that "the types of activities performed in the CEE region are oriented towards downstream, non-analytical and non-R&D activities such as testing and standards" (2003, 22). Similarly, Ban (2013) argues that Romania fits the DME profile well, finding itself captive in the 'dependent innovation systems' trap through its specialisation in labour-intensive, downstream production that caters to the needs of the hungry multinational sector.

My findings regarding the business services sector contradict this economic paradigm based on labour-intensive production capacities, downstream-oriented value chain activities and externally-dependent innovation systems. In line with this, the executive director of a business services MNC in Bucharest talks about the existence of indigenous innovative capabilities and how a system for nurturing and expanding these innovative capabilities has developed in Romania (interview code BS_17):

"Yes, it happens here that any of our delivery units can develop something [creative innovation]. We have a department that is in charge of this... from Chişinău. They validate. If you develop something, we actually have an initiative – people who are not assigned to a specific project may for a period engage in research. One guy comes with an idea, others adhere to it and they form a team. They usually use the latest technology, nothing is imposed, they can choose what they want, they can learn what they want because this is actually the goal – to learn. It doesn't always matter if the project finalises or if the innovation gets implemented [...] of course it is desirable that the innovation gets implemented somewhere, and if it's good

it can get implemented in other delivery units and even in other parts of the company [other subsidiaries]. A file is made [for the innovation], the file is accepted by the department in Chişinău, which evaluates it and allocates funds. The innovation is further developed and is implemented where it is needed.”

As the quote indicates, the Romanian business services industry is undertaking innovative value chain segments, which indicates the fact that the institutional configuration of the sector went through a process of industrial upgrading and is now able to sustain high value added activities of a creative nature. Furthermore, what the quote shows is that the institutional framework of innovative activities is maturing. Innovation hubs of MNCs aren't independent, single entities operating in isolation and interacting solely with the headquarters. MNCs have designed and implemented a system to promote innovative activities across the CEE region, with different innovation hubs communicating and working together to develop ideas and apply them to different subsidiaries that are part of the value chain. My research indicates that Ipsos has implemented an even more complex and diversified network in CEE, having subsidiaries in Romania, Bulgaria, Hungary, Poland, the Czech Republic and Slovakia. Its R&D units differ in size and specialisation across each CEE location; however, there is a clear communication and collaborative network between subsidiaries. This further substantiates my claim regarding the formation of a foreign-based system designed to promote innovative activities in the CEE region and the fact that these players have triggered institutional change through technological upgrading and value chain evolution. All eleven sample firms have established multiple subsidiaries within the CEE region and undertake creative activities. There is a clear communication and interaction between the innovation hubs of every MNC within the CEE region; however, the complexity of networks and the size of the innovative system varies for each MNC.

Technological Transfer in the Romanian Business Services Sector

I now move on to discuss the aspect of technological transfer. The process of technology transfer was facilitated by the foreign investors who created and drove the development of the business services sector. Furthermore, the evolution of the structure and volume of technological transfers was also influenced by the representatives of foreign capital. By facilitating technological transfers, I argue that MNCs triggered a

process of industrial upgrading and informational inflow and as such, had a transformative effect upon the institutional configuration of the industry.

According to the literature, within an institutional hierarchy MNCs are situated at the top, while domestic companies act as suppliers and depend on the multinational sector for continuous work and the trickling down of foreign practices into the domestic sector (Pavlinek, 2004; Greskovits, 2005; Bohle and Greskovits, 2006; King, 2007). This model defined by hierarchical centralised control and external dependency is in line with Nölke and Vliegenthart's work (2009). In the early stages of the Romanian business services industry, the institutional setting was defined by a large informational gap. According to my interviewees,⁹³ the indigenous capacities were skewed towards low to medium value added activities, the existing standards were low, the utilised architecture was simplistic and there was a very low number of patents in the region. As a result of these institutional conditions, technology transfers were imposed by the MNCs who established operations within the Romanian national political economy. Technology was transferred to Romania and the entire CEE region under the strict control of the MNC headquarters. During this initial stage, MNCs imported new technologies within the institutional context that were specialised in more basic or downstream non-analytical activities rather than medium- to high-end development processes. Thus, I can argue that foreign investors are one of the principal driving elements behind the technological progress of the industrial order. The industry experienced institutional growth and diversification as learning and informational accumulation ensued. The value chain shifted towards more complex and creative activities. As the process of industrial upgrading carried on and the shift towards medium- and high-end analytical activities took place, the technologies transferred to Romania by MNC headquarters modified their composition as well, becoming more and more oriented towards the high value added end of the spectrum, including creative activities such as R&D and design. One industry representative captures the evolution of technology transfers very well (interview code BS_18):

“It's an evolution. They will recruit people and impose the processes; however, as you [the subsidiary] start to work and develop a variety of new roles are created, such as: ownership-, technology-, user-, architecture-oriented etc. But these are all coordinated by the HQ, so that they adhere to

⁹³ Interviews: BS_1, BS_2, BS_3, BS_4, BS_7, BS_8, BS_9, BS_12, BS_13, BS_17, BS_18.

the levels and standards imposed by HQ. The degree of autonomy is approved by the HQ.”

The interviewee highlights that with the technological evolution of the sector and the accumulation of information there is a diversification of job roles and working platforms within organisations – this is another instance of institutional change that was triggered by foreign capital through the process of industrial upgrading. The level of technological complexity attained gives subsidiaries more autonomy in their interaction with the headquarters. Furthermore, I would like to emphasize that the relationship has moved beyond the initial ‘forced transfers’ that permeated the initial stages of industrial development to a scenario in which the subsidiaries do not rely solely on technological transfers but instead develop internal production capacities in the form of processes, solutions, platforms and architecture. The executive director of a MNC subsidiary in Timișoara emphasizes this evolution of technological transfers but also the changing dynamics between the subsidiary and the MNC headquarters (interview code BS_8):

“They [the company’s technologies] are sort of imposed to be developed here in Romania. You can include here first of all the wireless solutions. Second of all, the 4G communications which is the latest generation, I am sure you have heard of it, we promote it together with long-term evolution [...] We are involved in this strategic product and from what I understand we will start working on 5G, this is in the not so distant future. Then we have the IP and platforms side. And we also have the many customer experience activities with the entire range of customer experience solutions [...] The strategy is indeed imposed by those at the central level [the HQ]. Either the Chief Technical Officer or the marketing side. So strategy is imposed, but design and execution is at our discretion.”

What the quotation highlights is the emergence of a greater degree of decision-making power for Romanian subsidiaries – or the subsidiary managers – in their relationship with the top of the hierarchy. However, the model of hierarchical centralised control and external dependency has not been dismantled. This new ‘looser’ subsidiary-MNC headquarters relationship is still dominated by the MNC headquarters. Control and imposition are still enforced, with the MNC headquarters controlling the company strategy and imposing the aspects relating to it. What the issues of a ‘looser’ subsidiary-MNC headquarters relationship and greater subsidiary autonomy highlight is that now

the execution and implementation of the strategy fall under the responsibility of the subsidiary.

Development of Managerial Talent in the Romanian Business Services Sector

The story of managerial talent in the Romanian business services sector is one defined by evolution. Similar to the institutional transformation of the structure and orientation of the value chain and the nature of technological transfers, managerial talent went through a process of institutional change in the form of learning and maturation.

According to my six industry representatives,⁹⁴ in the early stages of the sector senior managerial and supervisory positions were held by expatriates. The MNC headquarters would select and impose a team of foreign senior managers that would be relocated in Romania, in order to set-up the operations, and supervise and control the direction of the subsidiary. This indicates a high level of external dependency of the subsidiary and at the same time, a high level of centralised control that the headquarters exerted through the imposition of foreign managerial resources. The Romanian business services sector was captive to the decisions and hierarchical order imposed by the central leadership at the headquarters, thus having no autonomy to decide the direction of indigenous subsidiaries.

The transfer of foreign managerial talent determined a process of informational transfer and learning. The inflow of foreign managerial skills and practices laid the foundations for the formation of domestic managerial talent. At the same time, the institutional configuration of business services underwent a process development and informational accumulation on its own. As the industry matured, we saw the expansion of existing skill sets and the emergence of new ones. Thus, as knowledge transfer and skills upgrading ensued, the story of managerial talent started to change – expatriates in senior managerial positions were gradually replaced by Romanian managers. These domestic players were specifically trained and prepared for the process of taking over some of the leadership positions and attributions that had been held by foreign managers during the initial development phases of the business services MNCs. According to the executive director of a MNC subsidiary in Bucharest (interview code BS_17):

“The company where I was working before went through a process of development. We had managers from Romania, but the senior positions

⁹⁴ Interviews: BS_2, BS_7, BS_8, BS_12, BS_17, BS_18.

were still occupied by them [foreign managers] or at least they were from [name of country where headquarters is based]. Even if we had Romanian colleagues that were directors or vice-presidents, they were located in the country of origin of the headquarters.”

The quote shows that domestic managerial talent started to develop within the Romanian business services sector. Another executive director of a MNC in Bucharest illustrates this very well (interview code BS_18):

“Teams of Romanian leaders get formed and are helped to grow. The GM is still from the country of origin of the company, where the HQ is. But there are now domestic intermediary management players that were formed as the companies grew. These are the Romanian business people.”

Similarly, the executive of a leading MNC subsidiary in Bucharest reinforces this aspect (interview code BS_17):

“I know that in companies the bosses are from the country of origin of the company, at least at the beginning. [...] we always had someone locally or we had remote management, meaning that they resided in their country of origin and we communicated via email, via telephone or they used to visit us.”

The transfer of managerial practices through the imposition of foreign capital representatives in senior positions together with the institutional growth of the industry have driven the formation of domestic managerial talent – a social category that did not exist before, as those roles and positions were occupied by foreign actors. What this shows is that the degree of external dependency of Romanian subsidiaries has decreased and the level of centralised control exerted by the headquarters is lower. Romanian subsidiaries have developed indigenous decisional powers and due to this, they have gained a certain degree of autonomy of their activities and operations from the centralised control imposed by the headquarters. However, as the executive director of a MNC subsidiary in Bucharest accurately identifies in the first quotation, this managerial category is an intermediary one – a class of leadership separating (and in-between) senior managerial positions that are still occupied by foreign actors and the lower hierarchical positions, including low-end managers, team leaders and labour. External dependency is still present and centralised control is continuously exerted by the

headquarters through the imposition of a foreign GM or CEO, who quite often is from the country of origin of the headquarters. The issue that corporate managers of CEE subsidiaries are responsible to internal supervisors in other countries has been discussed by Nölke and Vliegenthart (2009) and Radosevic (2003); however, the degree of centralised control that these authors envisage for the CEE region is much higher than what I have actually observed in Romanian business services. Similarly, Czaban and Henderson (2003, 182) and Holman (2002, 414) use language such as “close control on managerial decisions”, “the application of tight budgets” and “the heavy reliance of foreign companies on their appointees to the board of directors” to construct a picture of extreme dependency of the CEE subsidiary and domestic management on the headquarters and foreign management.

I argue that the story of the Romanian business services sector is a bit more nuanced than what the literature tells us. The degree of external dependency is not so high, with the sector having developed significant levels of autonomy in various areas of operation. According to seven industry representatives who described the situation within their own subsidiary,⁹⁵ domestic managers are now the players in charge of how to implement and execute the strategy created at the central level. What this means is that the headquarters provides the direction; however, the subsidiary can implement its own personalised approach to achieving the targets. Furthermore, nine industry representatives highlight the existence of reverse transfers⁹⁶ – more specifically, processes, solutions or innovations designed by Romanian subsidiaries that are adopted by MNC headquarters for their efficiency and competitiveness, and then further diffused to other subsidiaries in the value chain. This is in line with the literature advanced by Ferner et al. (2004), Ferner and Varul (2000), Edwards (1998a, 1998b), who argue that reverse transfer facilitates dissemination, which acts as a mechanism of regime competition, as the competitive advantages of subsidiaries and the national political economies where they are located can be extracted by MNCs and then transferred to the other parts of the value chain. This institutional upgrading of the position of Romanian business services companies within the value chain of MNCs indicates that Romanian subsidiaries have greater influence over the institutional structures of MNCs and greater decisional power in the interaction with the MNC headquarters.

⁹⁵ Interviews: BS_2, BS_8, BS_9, BS_12, BS_14, BS_17, BS_18.

⁹⁶ Interviews: BS_1, BS_2, BS_8, BS_9, BS_12, BS_13, BS_14, BS_17, BS_18.

7.5 Conclusion

This chapter has shown that foreign strategic investors and entrepreneurs as representatives of foreign capital are the central players behind the creation of Romanian business services, as well as the main drivers of institutional change since the establishment of the sector. Domestic elites in the form of representatives of the political sphere are also present within the institutional configuration of the sector. However, domestic political players form their own distinct power group or elite sub-coalition that is different from representatives of foreign capital. Unlike the coal and auto industries, where domestic elites acted as the central institutional drivers alongside other secondary institutional players, the power of domestic elites is lower within the internal dynamics of business services.

Having said that, we must be careful not to underestimate the role and positionality of domestic political players. Understanding the interaction between MNCs and the political sphere, more precisely the different push and pull factors between the managers of foreign business services companies and the domestic political players, allows us to capture the structural particularities and the inner functioning of the industry. Domestic elites have acted as facilitators of this industrial order by designing and implementing a range of policies that have driven the institutional evolution of business services since its inception. Despite the existence of a highly bureaucratic environment with cumbersome procedures that has often resulted in MNC managers believing that domestic political players do very little to support the development of the industry, the political sphere has a direct impact on the establishment and development of the sector through the granting of licenses and permits. Hence, domestic elites have the power to decide whether FDI is realised or not. The interaction between MNCs and the political sphere is not solely limited to the facilitation of licenses and permits; instead, domestic elites support the development of the sector through a whole range of incentives – the allocation of land and/or office space, cash incentives and tax incentives.

When analysing the interaction between the business services industry and the educational system, there is a certain level of coordination between the two institutional spheres which mesh together neatly and result in a form of institutional complementarity (Aoki, 1994; Hall and Soskice, 2001; Koen, 2005; Hall and Gingerich, 2009). More specifically, there is a considerable level of collaboration and dialogue

between the industry and educational system in the form of the design and implementation of curricula, the formation and delivery of courses and modules, the organisation of labs/workshop sessions, and the provision of part-time internships and integration into the job market. Furthermore, there is a considerable level of state dialogue and implication in the development of the industry through the provision of educational support. To augment the level of institutional support received, the business services industry has established an industry-wide private body that can interact directly with the state and its related institutions, and push for more coordination between the industry and the Romanian educational system. These structural particularities presented highlight the fact the Romanian political economy supports a CME-oriented interaction or coordination between the business services industry and the educational system.

Labour in business services is in stark contrast to that in coal mining and auto in terms of power and positionality. If the two historical industries are characterised by an industrial relations framework with CME-like features, industrial relations in business services are skewed towards more LME-like characteristics. Business services MNCs together with domestic political players have created a new variant of labour market institutions (through the flexibilisation of labour legislation) that co-exist alongside the more coordinated labour models present in coal mining and auto. More specifically, the institutional configuration of the sector has become permeated by a high incidence of flexible work and pre-determined working contracts, as well as a growing trend of utilising temporary work. In terms of creating a ‘hire and fire’ culture, despite the push of MNC managers for greater convergence towards the neoliberal spectrum, the domestic political sphere did not allow foreign capital to completely control labour. The political apparatus still maintains a layer of protection over labour, indicating that the business services labour model is not fully skewed towards the LME spectrum. This emerging evidence of institutional divergence between sectoral economies within the same national political economy allows me to further highlight the importance of breaking down national models and recognising the existence of sectoral difference. As I have emphasized when discussing the application of a nested spatial scale method, by breaking the institutional structure into different scales, I can zoom in on the different spatial configurations and capture their structural particularities and elements of institutional distinctiveness.

In comparison to the two other industrial orders that I analyse, business services has the most fragmented collective bargaining system and the lowest trade union membership. One can almost characterise the sector as a ‘union free’ sphere of economic activity. The legislative framework of unionisation has become further weakened by the implementation of an alternative model of organisation and consultation which offers its members weaker powers and attributions. The story is even better contoured when we take into consideration the general lack of knowledge regarding unionisation and unionisation levels within the sector. The inability of MNC executives to provide information about trade union activity constitutes compelling evidence of the marginal role played by trade unions and the weak self-organisation of labour working in the sector. Furthermore, the industry is characterised by multiple instances of anti-trade union behaviour and cases in which the management of certain MNCs avoided signing a collective labour agreement. This institutional context strongly contrasts the story of industrial relations in coal mining and auto, where trade unions are institutional players with considerable legitimacy and powers in the collaborative-antagonistic relationship with management.

The interaction between the players who constitute the dominant elites within this sector and industrial upgrading reveals a similar paradigm to what we observed in the chapters on coal mining and auto – more precisely, the fact that technological upgrading, value chain evolution, knowledge transfer and managerial talent formation were all driven by international forces. The business services sector underwent a process of value chain evolution that was driven by the representatives of foreign capital. What can be seen is a shift in the complexity and added value of activities and processes undertaken by Romanian business services subsidiaries, with there being a clear move from repetitive, non-analytical downstream activities to creative, analytical upstream segments of the value chain. Furthermore, as I have shown there is an increase in the proportion of R&D content among the industry players. This indicates that the institutional configuration of the sector went through a process of industrial upgrading and is now able to sustain high value added activities of a creative nature. With the development of indigenous technological capabilities and the increase in task complexity, Romanian subsidiaries are now less dependent on external industrial upgrading and knowledge transfer. Another central argument that I put forward is that foreign capital has also driven the inflow of foreign managers and as a consequence, the transfer of foreign managerial skills, which in turn has led to the formation of domestic (intermediate) managerial

talent. The accumulation and development of domestic managerial skills indicates that the degree of external dependency of Romanian subsidiaries has decreased and there is a rise in the decision-making powers of indigenous managers vis-à-vis foreign managers.

Considering the role it plays in the institutional context of the business services sector, I argue that the interaction between MNCs and the other forces of change permeating the internal dynamics – domestic elites (in the form of representatives of the political sphere), education, labour, and industrial upgrading, has had a transformative influence on the industrial order and its institutional configuration.

Chapter 8

Conclusion

‘Traditional’ comparative political economy literature is not able to accurately comprehend the inner functioning of former Socialist CEE political economies, which are simply institutionally distinct from Western high-income economies (Feldmann, 2007; Hancké, 2007; Lane, 2007; Mykhnenko, 2007; Birch and Mykhnenko, 2009; Martin, 2013). An underlying assumption of the thesis is that one cannot simply take models conceptualised for advanced, high-income economies and extend them with minimal structural adjustment to medium-income, less advanced economies that underwent a period of 40 years of Socialism followed by a massive neoliberal adjustment programme (Lane, 2011; Myant and Drahakoupil, 2011; Martin, 2013). Instead, the theoretical approach that I have designed recognises the importance of the structural particularities of the CEE region – more specifically, the necessity to incorporate a range of local institutional forms and their effects when attempting to explain the concepts of institutional formation and institutional change.

New Drivers of Institutional Change

My study has demonstrated the existence of the pervasive role of the state and the power of state representatives,⁹⁷ the theoretical importance of historical legacies⁹⁸ and the effect of international forces⁹⁹ as key characteristics or context-specific explanatory variables that should have a wider and deeper incorporation within the conceptualisation of national political economies and institutional change in CEE (Peck and Tickell, 2002; Peck and Yeung, 2003; Peck, 2004; Peck and Theodore, 2007). Consequently, the analytical framework that I have designed and implemented throughout my study of institutional change in the Romanian political economy introduced a more dynamic, relational, historically-based, context-specific and agent-driven theory of institutional transformation. My operationalisation of this approach has demonstrated the existence of dominant elites, the presence of international forces and the role of labour as the main drivers of institutional change in Romania. The effect of these drivers, or elements of change, has been captured through the construction of a historical institutional narrative

⁹⁷ Eyal, Szelényi and Townsley, 1998; King, 2002, 2007; King and Szeléleni, 2005; Hancké, 2007; Rhodes et al., 2010; Becker and Jäger, 2010; Onaran, 2011; Myant and Drahokoupil, 2011.

⁹⁸ Iankova, 2002; King and Szeléleni, 2005; King and Sznajder, 2006; Hancké, 2007; Rhodes et al., 2010, Onaran, 2011.

⁹⁹ Tickell and Peck, 2003; Peck, 2004; Streeck, 2007; Brenner et al., 2009; Birch and Mykhnenko, 2009; Bohle and Greskovits, 2013.

of the Romanian model and the identification of the key moments of institutional change throughout time.

Furthermore, the study has continuously shown that the dominant elites have captured the Romanian state and its institutional configuration, and in the process, they have captured the distinct sectoral economies – coal mining, auto and business services. Throughout the different chapters of my study, I have demonstrated that the dominant elites as a category of social actors are stable, but by no means static in their membership and configuration as a social group. Thus, the fundamental finding emanating from my study constitutes the ‘continuity of elites’ as a regional institutional characteristic specific to CEE, but more importantly in this case – a structural particularity defining the internal dynamics of the Romanian political economy from the Socialist regime into the post-transition capitalist variety. As I have highlighted previously, there was no such thing as a rigorous process of lustration, in which the political players, representatives of the former Socialist regime, were completely removed from the newly established institutional structure upon the transition from plan to market or during any other key historical turning point for that matter (Cernat, 2006; Gallina, 2008; Martin, 2013).

Another central finding that was continuously highlighted throughout my study is the fact that the dominant elites often held multiple positions or fulfilled a range of roles within the power structure of the Socialist state. Through my investigation of historical materials, I have demonstrated that representatives of the political sphere held multiple positions within the national-level state institutions. At the same time, the institutional context was punctuated by continuous exchanges and alliances between the political and economic spheres of the state structure. Such intensive interaction and high level of collaboration prevented the independence and separation of political and economic social agents. The concept of ‘multiplicity of roles’ in combination with the constant association and congruity between different elite players created an institutional configuration with highly concentrated power. Consequently, this links back to my argument of state and industrial order capture, as well as North et al.’s assumption that elites always seek to establish alliances in order to create rents and to limit the ability of citizens to form organisations by conferring this right solely to members of the dominant coalition (2007, 2009, 2013).

Throughout my empirical chapters, I presented the identity of the elites shaping and controlling the structure of the three sectoral economies included in my study. In coal, the social actors controlling the structure and direction of the industry were the dominant elites from the political sphere – the members of the Central Committee (CC) under Socialism followed by the members of state in the capitalist era. Due to the continuous inward-orientation and state-ownership of the industry from the Socialist regime into the post-Socialist capitalist variety, the composition of the dominant elites has remained considerably stable. The situation is different in auto. Despite the fact that the presence of international forces – technological imports and licensing – within the internal dynamics of the industry dates back to the Socialist period (Ion Mihai Pacepa in *Historia*, 2017a; Lupul Dacic, 2014), the institutional configuration of the sector was primarily controlled by domestic elites from the political sphere between the 1960s and mid-1990s. Starting from the mid-1990s onwards, foreign capital captured the institutional structure of the auto industry. More specifically, Daewoo, Renault and Ford occupied the dominant position within the control and ownership structure of the industrial branch, with domestic elites taking a more backseat role within the structure of the overall elite coalition.

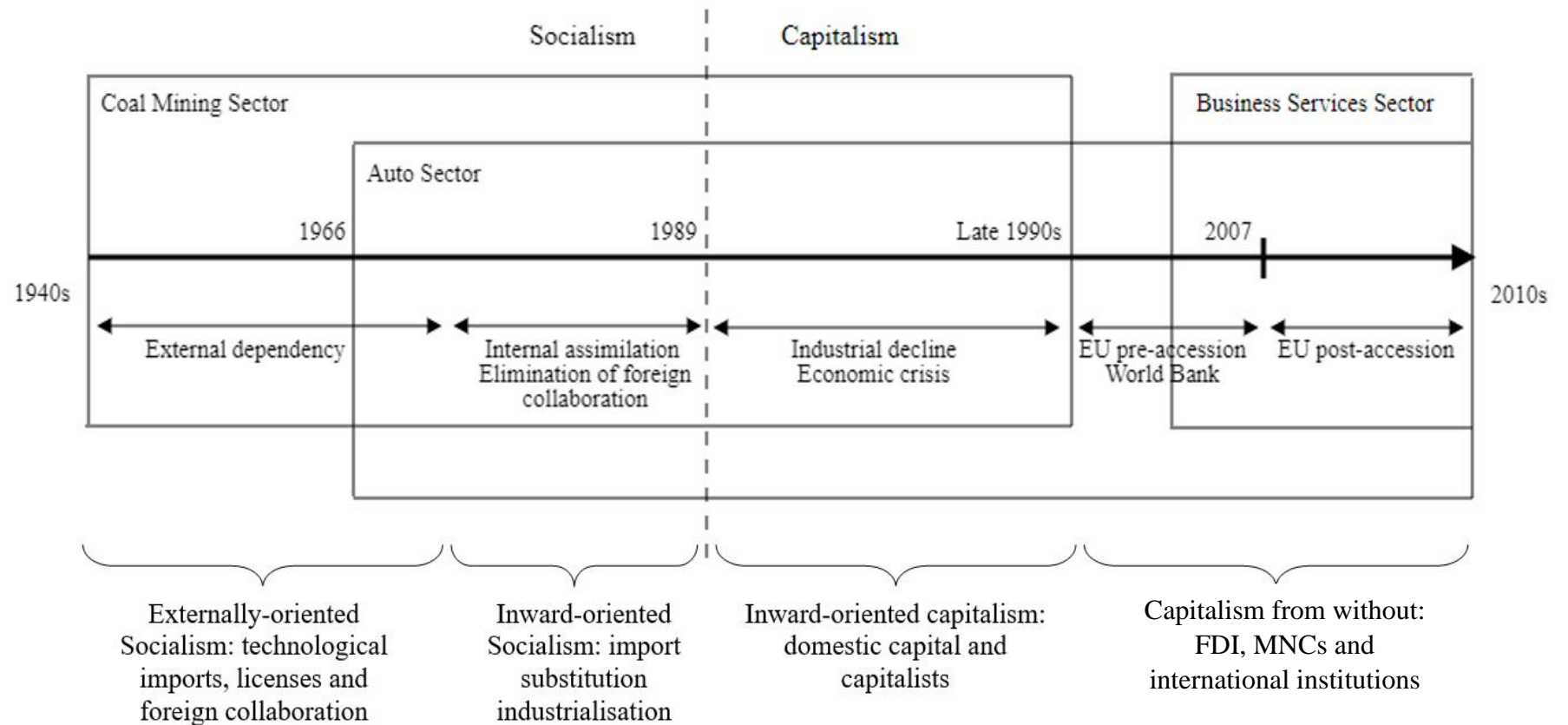
In contrast, the ownership structure of the business services sector was dominated from its inception by foreign investors and MNCs such as Nokia (previously Alcatel Lucent), IBM, Ipsos, Stefanini, HP and Genpact.¹⁰⁰ Hence, the primary players driving the creation and evolution of the institutional configuration of the Romanian business services sector are the representatives of foreign capital – MNC executives. However, despite the fact that the representatives of foreign capital have been the dominant elites controlling the structure and direction of auto (since the mid-1990s) and business services (since industry inception in 2003-2004), domestic political players still played a direct role on the establishment and development of these two sectors. More precisely, domestic political players facilitated the displacement of the auto industry and the creation of business services by FDI. Furthermore, the Government provided representatives of foreign capital with the necessary licenses and permits to operate within the national context, and even created a system of institutional incentives aimed at attracting new FDI and/or stimulating the development of already established industry players.

¹⁰⁰ Alcatel Lucent was established in 1991 in Timișoara, IBM was established in 1995 in Bucharest, Ipsos was established in 2000 in Bucharest, Stefanini was established in 2004 in Bucharest, HP and Genpact were established in 2005 in Bucharest (Data taken individually from official company websites).

My study has demonstrated that the dominant elites do not exist in a vacuum; more precisely, these social agents controlling the state institutional order are not insular forces separated from the other actors, forces and phenomena within the Romanian institutional context. Instead, dominant elites are situated within the institutional setting alongside other categories of social agents with diverging roles and positionalities. Interactive exchanges between these different levels of players are on a continuous basis, with the nature of exchanges being both collaborative and conflictual depending on the historical institutional period (Streeck, 2007; Bohle and Greskovits, 2013). The institutional configuration of the state is conceptualised as highly dynamic, permeated by the continuous presence of push and pull factors, the formation of alliances, the emergence of social struggles, and the presence of creative and disruptive forces. There are constant fluctuations within the composition of both the dominant elites and the other competing elite sub-coalitions of social actors. In this sense, some sub-coalitions of elites achieve dominant elite status, while others lose their legitimacy within the ruling state structure and are downgraded to a non-elite status. As I have shown in Chapter 5, this was the outcome of the polity vs. labouring class conflict in the coal mining sector during the late 1990s (the *Mineriadas*). More specifically, the coalition between political officials and representatives of capital removed organised labour and trade union leaders from the power structure of the state. By downgrading and delegitimising the positionality of the labouring class, the polity-capital coalition concentrated power and institutional access in the hands of fewer social agents, ultimately enhancing their own position and identity strength within the power structure of the state.

The main theme running throughout my empirical chapters emphasizes the fact that the institutional configuration of these industrial branches is permeated by a series of interactions between the dominant elites and different forces of change, which have driven institutional transformation across the Romanian national political economy over time. Although the three sectoral economies I analysed have considerably different structures in terms of size, spatial and temporal configuration, ownership structure and historical legacies, there is a strong overlap in terms of the different forces of change and the instances of institutional interplay permeating their institutional configuration.

Figure 8.1 Principal Moments of Institutional Change Running across Coal, Auto and Business Services during the Timeframe



The first interaction analysed is that between the dominant elites of the respective sectoral economy and industrial policy (coal) and industrial upgrading (auto, business services). Unlike the auto and business services industries, where MNCs and FDI have played a significant role in shaping the institutional configuration of the two industrial branches, coal mining is defined by the absence of such international forces. Out of the three industries I analysed, coal presents the highest degree of inward-orientation and it is the only remaining Romanian industry fully owned and controlled by the state. However, despite this inward-orientation, the institutional configuration of the sector has not been completely isolated from international forces. Using archival materials, I examined the different types of industrial policies pursued during the Socialist regime and their effects on the institutional configuration of the industry. During the 1960s and early 1970s, the dominant elites – the members of the CC of the Romanian Communist Party – facilitated the creation of an institutional framework with a high dependency on technological imports and foreign collaboration; thus, making the process of technological upgrading highly dependent on the perpetuation of this open, import-dependent economic paradigm.¹⁰¹ However, from the mid-1970s onwards the members of the CC implemented a new industrial policy programme that shifted the orientation of the sector. The new industrial policy package focused on reducing imports and minimising the dependency on technological imports in conjunction with promoting the development of internal production capacities. Consequently, the institutional context shaped by the dominant elites was one characterised by autarchic production capacities and the utilisation of old technological reserves. Thus, my findings in Chapter 5 revealed that by eliminating technological exports and foreign collaboration, the members of the CC obstructed the technological upgrading and diversification of the sector and in the process, they orchestrated the decline of coal. The CC did not aim to trigger the ossification of the sector; instead, this was the unintended consequence of the creation of an autarchic system. Furthermore, in the post-Socialist era the dominant elites initiated the restructuring of the industrial order via a series of institutional measures: 1) the implementation of two emergency ordinances, and 2) the development of a vertical integration programme that sought the termination of loss-making sites and the re-organisation of profitable sites. Via the implementation of these institutional measures, the dominant elites triggered the death of Romanian coal.

¹⁰¹ The principal social agents shaping industrial policy were members of the Permanent Bureau of the CC, including Nicolae Ceaușescu, Elena Ceaușescu, Gheorghe Rădulescu, Ilie Verdeț, Emil Bobu, Constantin Dăscălescu and Manea Mănescu.

The situation of auto mirrors that of coal throughout the Socialist regime. By the early 1990s, the institutional configuration of auto was undergoing a severe process of industrial decline and economic crisis, with the industry requiring urgent inflows of FDI to prevent it from a path of institutional decline. Rather than allowing this historical sector to embark on a path of decline, the domestic elites from the political sphere – the principal government¹⁰² and State Property Fund representatives – facilitated the privatisation of the industry by allowing MNCs to acquire the two national players Dacia and Olcit. Chapter 6 demonstrated that FDI displacement triggered an extensive process of industrial upgrading, knowledge transfer and the re-organisation of other value chain segments such as the components industry. More precisely, the intervention of foreign capital – Daewoo, Renault and Ford – drove a process of industrial reconstruction via the creation of new production lines, the modernisation of existing capacities, the re-organisation of production, the supply and installation of new construction machinery, the introduction of new standards of quality and productivity, the transformation of distribution systems, the introduction of new servicing/repairs models, and the implementation of extensive training programmes.

Business services display the highest degree of external dependency and level of interaction with international forces out of the three industries I investigate. As I have shown previously, this sector of economic activity has been driven by the presence of foreign investors and FDI. More precisely, Romanian business services is almost completely privately owned and concentrated around MNCs. However, the role and influence of domestic elites from the political sphere must not be ignored. Domestic elites have attracted FDI via the allocation of a range of financial incentives and have facilitated access to representatives of foreign capital via the granting of licenses and permits. Hence, the creation of this industrial branch was driven by the collaborative exchanges between domestic elites and international forces.

The institutional configuration of the sector underwent a process of value chain evolution that was driven by the MNCs and their executive management. Chapter 7 demonstrated that the presence of FDI has determined a clear increase in the complexity and added value of activities and processes undertaken in Romania, with the industry portfolio moving from repetitive, non-analytical downstream activities to creative,

¹⁰² As I have emphasised in Chapter 6, the senior-level government officials who facilitated the privatisation of the auto sector include the Prime Minister, the Minister of Industry, the Minister of Finance, the Minister of Transportation and the Minister of Labour.

analytical upstream segments of the value chain. Moreover, my findings highlighted the fact that the presence of FDI stimulated the rise in the proportion of R&D content within the structure of the industry. Taking into account the growing complexity of activities undertaken, my findings regarding business services contradicted the economic paradigm associated with CEE political economies as based on labour-intensive production capacities, downstream-oriented value chain activities and externally-dependent innovation systems (Högselius, 2003; Nölke and Vliegenthart, 2009; Ban, 2013). Non-analytical and downstream business services activities are still undertaken by MNCs across Romania; however, they are not the sole specialisation of foreign investors, with MNCs undertaking a more diversified portfolio of tasks ranging from low to high value added activities. I also showed that the presence of FDI drove the inflow of foreign managers and as a consequence, the transfer of foreign managerial skills – a process that stimulated the formation of domestic (intermediate) managerial talent. Based on the above mentioned, the institutional configuration of business services went through a process of industrial upgrading driven by the presence of FDI.

When appraising the trajectory of development of auto and business services, one can argue that overall Romania is a success story. After the fall of Socialism, Romania's transition from plan to market and politico-economic transformation were more problematic than the changing dynamics experienced in the Visegráds and the Baltic states (Myant and Drahokoupil, 2011). The length and depth of the transition recession in the Romanian political economy was more severe than in Visegráds and the Baltic states (Cernat, 2006), experiencing a sharp drop in economic growth in the first transitional years, followed only by a gradual and incomplete recovery (Martin, 2013). Essentially, Romania went from being a laggard case in the first decade post-Socialism to embarking on a process of industrial revitalisation in the second and third decades post-Socialism. The industrial re-development and creation of new production capacities was orchestrated by foreign elites – FDI – whose presence upgraded various industrial branches across the Romanian political economy. This was not what I expected to find when I began my research. The regional literature and media had shaped my opinion, making me believe that Romania was still very much a laggard case or at least a DME-oriented capitalist variety that possessed comparative advantages as an assembly platform for semi-standardised low to medium value added durable

goods.¹⁰³ The iterative process of studying the history, theory and fieldwork revealed a new set of particularities defining the Romanian political economy and its industries, with various industrial branches stepping away from the DME-like format and

Despite the restructuring and de-industrialisation of Romanian coal, the presence of international forces has driven the politico-economic transformation of the post-Socialist capitalist variety by implementing a series of structural and market-oriented reforms, as well as revitalising various industrial branches such as auto and business services. Thus, I would argue that the presence of neoliberalising forces was successful not only at shaping the institutional structure of the Romanian state, but also at triggering the partial re-construction and industrialisation of the Romanian industry.

The second interaction that I analysed across my empirical chapters represents the institutional interplay between dominant elites and labour. My analysis of coal has revealed that coal miners have always distinguished themselves among the more unique sub-categories of the Romanian proletariat. Before the restructuring of coal began, the configuration of industrial relations was defined by a strong labour model, with a high level of unionisation, average wages greatly exceeding the national average and the prevalence of strong ties between the representatives of organised labour and the polity (Cernat, 2006). In order to capture the power and positionality of coal miners, I examined the relations and collaborative arrangements between the dominant elites from the political sphere and organised labour during the *Mineriadas* of the 1990s. My findings indicated that coal miners were utilised by the dominant elites as an instrument of manoeuvring to implement various measures and forms of institutional change. The allowance made by dominant elites for miners to act as control and security mechanisms, substituting for law and order, led to the emergence of an enlarged elite coalition; more specifically, the leadership of organised labour – the Executive Bureau of the League of Free Mining Trade Unions “Jiu Valley” – was positioned alongside the domestic elites from the political sphere within the power structure of the Romanian political economy.¹⁰⁴ The dominant elite-organised labour collaborative arrangement influenced institutional change by suppressing any form of political opposition and securing the continuity of the ‘old’ elites, members of the former Socialist regime.

¹⁰³ Goods based on technologies that were designed and produced by the MNC in its country of origin or in advanced industrialised countries.

¹⁰⁴ The President of the the Executive Bureau of the League of Free Mining Trade Unions “Jiu Valley” was Miron Cozma – the emblematic leader of coal miners during the *Mineriadas*.

However, the end of the 1990s was marked by the end of this collaboration between dominant elites and coal miners. Having served their purpose as either instruments of delegitimising the political opposition or mechanisms for downgrading the status of the competing labour sub-coalition, the dominant elites sought to limit the size of the dominant sub-coalition. My findings revealed that organised labour representatives were eliminated from the elite coalition and integrated amongst non-elite social agents. Naturally, coal miners struggled to retain their powers and positionality in the elite structure; however, the dominant elites succeeded in taking away their collective powers and cancelling their privileged status within the overall labour class structure.¹⁰⁵

Similar to coal, the labour model of Romanian auto contradicts the typical CEE industrial relations literature, which characterises organised labour in post-Socialist economies as weak and fragmented. More specially, the institutional configuration of industrial relations is strongly skewed towards the CME type, with organised labour clearly acting as an elite force by challenging the representatives of foreign capital in the post-Socialist era. By using a series of instances of labour unrest at Dacia, my study demonstrated that organised labour had the power to exert institutional change on the structure of the firm. More precisely, organised labour acted as a counter-elite force by challenging foreign elite power in the second and third decades post-Socialism.¹⁰⁶ The evidence indicated that the interactive exchanges between organised labour and representatives of foreign capital were of a competitive and conflictual nature, as each category of social agents tried to capture and maintain control over the institutional structure of Dacia. The trade union succeeded in increasing its powers and legitimacy vis-à-vis Dacia's management and in the process, re-negotiated working conditions and limited the powers and degree of control of Dacia's management over the structure of the enterprise. At the same time, the analysis of labour revealed that the institutional configuration of the sectoral economy is not homogenous, with different firm players presenting diverging labour models. To be more specific, I did not observe a similar model of labour unrest at Ford's subsidiary, as organised labour wasn't able to position itself in such a way as to challenge foreign elites.

¹⁰⁵ The dominant elites who decreased the powers and positionality of the coal mining labouring class include the President (Emil Constantinescu), the Prime Minister (Radu Vasile), the Minister of Labour (Alexandru Athanasiu), the Minister of Industry (Radu Berceanu) and the Minister of Justice (Valeriu Stoica).

¹⁰⁶ Dacia's trade union, Dacia Automobiles Trade Union "SAD", organised three different sets of strikes in 2003, 2008 and 2013 respectively. Approximately 80 per cent of Dacia's workforce are members of SAD.

The story of labour in business services is in stark contrast to that in coal mining and auto in terms of power and positionality. If the two historical industries are characterised by an industrial relations framework with CME-like features, industrial relations in business services are skewed more towards the LME blueprint. My study revealed that the institutional configuration of the sector has become permeated by a high incidence of flexible work and pre-determined working contracts, as well as a growing trend of utilising temporary work. Furthermore, my investigation highlighted that out of the three sectoral economies I examined, business services had the most fragmented collective bargaining system and the lowest trade union membership. The analysed data showed that sector is an almost 'union free' sphere of economic activity. In addition, the model of unionisation was further weakened, when the domestic elites from the political sphere implemented an alternative model of organisation and consultation, which offered its members weaker legitimacy and attributions (Ciutacu, 2011; Trif, 2012). The overall weakness of business services labour was even further reinforced, when I took into consideration the general lack of knowledge regarding union structures and unionisation levels within the sector. The fact that the senior MNC executives I interviewed were unable to provide information about trade union activity in their subsidiary indicates the marginal role played by trade unions and the weak self-organisation of labour in the sector. The general lack of knowledge regarding trade union activity was coupled with various instances of anti-trade union behaviour and cases in which management avoided signing a collective bargaining agreement that are prevalent throughout the industry. The comparison of collective bargaining, unionisation levels and organised labour strength across the three sectoral economies in my study further highlights the existence of sectoral divergence within a national model and the fact that each sectoral unit is institutionally diverse and has its own structural particularities. Business services labour clearly does not act as an elite force and is not able to either suppress an opposing political group or challenge the representatives of foreign capital. Unlike labour in coal mining and auto, business services labour cannot exert institutional change on the configuration of the sector or even on the structure of the firm for that matter.

The third interaction that I examined in my study constitutes the institutional interplay between the dominant elites and the sphere of education. This type of institutional interplay was embedded with the institutional configuration of auto and business services. The dominant elites drove the formation of an educational system specialised

in automobile construction in order to provide institutional support to Dacia and Olcit. More precisely, the growth of the car and components industries triggered the diversification of the educational system, which in order to keep up with the qualification demands of the two complementary industries expanded its portfolio of specialisations. The interview data and archival records revealed that the institutional context is defined by a high degree of institutional collaboration or strong complementarity between Romanian car manufacturers and educational institutions. The existence of joint research programmes, the involvement of industry players in the development of curricula and the creation of R&D labs, and the re-establishment of the apprenticeship programmes are clear examples of the strong degree of interaction between the sectoral players and the different educational institutions. Furthermore, my analysis indicated that there is continuous communication and knowledge transfer between two main educational institutions – the University of Pitești and the University of Craiova – as well as a variety of alliances between the two main educational hubs and the technical colleges located in the Pitești (Argeș) and Craiova (Dolj) region respectively. These ‘interactions’ between the sectoral players and the educational sphere in conjunction with the ‘interactions’ between the different educational institutions reinforce the existence of a form of institutional complementarity similar to the one proposed by the VoC framework. Moreover, based on the structural particularities of these institutions and the way they mesh together, the educational sphere in Romanian auto converges towards the CME end of the spectrum.

Business services revealed the same type of interaction between the different sectoral players and the educational sphere. More specifically, my interview data and collection of online newspaper articles indicated that there is a considerable level of collaboration and dialogue between the industry and educational system in the form of the joint creation and implementation of curricula, the delivery of modules by industry representatives, the organisation of joint labs/workshop sessions, the supplying of new computers and lab equipment, and the provision of part-time internships. Furthermore, my findings illustrated that in order to compensate for the institutional voids and inadequate state support various industry representatives created an industry-wide private association that would interact directly with the state and push for the level of institutional support required by the industry. The existence of this industry-wide association drove a series of institutional changes across the sector that include 1) greater knowledge transfer and dialogue between sectoral players, 2) the development

of joint educational programmes with universities, and 3) the improvement of relations with state authorities at the local-, regional- and national-level. Considering the structural particularities of these institutions and the degree of coordination between them, my argument is that the educational sphere in Romanian business services converges towards the CME end of the spectrum.

Contribution of the Study

A considerable body of research has tried to explain institutional change in CEE political economies by utilising the classic elements of change that have been hypothesised by the comparative political economy literature for high-income, industrialised Western economies (Feldmann, 2007; Hancké, 2007; Lane, 2007; Mykhnenko, 2007; Birch and Mykhnenko, 2009; Martin, 2013). While this research has provided a number of important insights, it has failed to recognise the importance of the structural particularities of the CEE region. This thesis was concerned with developing a distinctively interdisciplinary theory-based research process based on the incorporation of three approaches: economic geography, historical institutionalism and comparative political economy. While I did not analyse all of these approaches in full, I deconstructed them, selected their relevant ‘moving parts’ and operationalised them by incorporating them into my own theoretical framework. In doing so, I implemented a bottom up grounded approach to theory and constructed a grand theory of institutional change in CEE. The combination of these different disciplines allowed me to capture and incorporate the different regional characteristics that distinguish the CEE region from other spatial configurations, thus allowing me to make theoretical contributions to the study of institutional change.

My contribution to theory is through the extension, refinement and synthesis of existing theories – a process of iterative theory development. According to Lofland et al. (2006), new reports of previously explored settings may also make original contributions by virtue of focusing on topics or units or aspects of those topics. Theoretical newness can be achieved in a study via theoretical *extension* – more specifically, the *extension* of pre-existing theoretical or conceptual frameworks to social groups or settings other than those in which they were first developed or intended to be used (Snow and Anderson, 1987; Cal Morrill, 1995). Furthermore, an original contribution can be made through theoretical *refinement* – that is the modification of existing theoretical perspectives through close inspection of a particular theoretical concept with new data (Burawoy,

1998; Burawoy et al, 1991). In my study, extension occurred in conjunction with refinement. The utilisation of the Romanian case study allowed me to extend emergent theory on the CEE region, refine and add on to an existing theoretical case (since the Romanian institutional framework is distinct and does not fully replicate the institutional configuration of the other CEE political economies), and also identify a set of structural particularities (institutional similarities) that are prevalent across the entire CEE region. Furthermore, my theoretical framework was developed through an iterative process of studying the history, the literature and my fieldwork (both in-depth interviews and archival materials).

One of the key theoretical contributions of my study is that it adds to the debate that national political economies are not institutionally homogeneous; instead, one can see the persistence of internal systemic diversity and the co-existence of institutionally distinct sectoral economies within a national order. This goes against the VoC central argument that national configurations are defined by institutional coherence and homogeneity. By studying the presence and influence of a set of drivers of institutional change longitudinally, I observed institutional variegation across the three sectors incorporated in my study. The analysis of labour has revealed significant institutional differences. The institutional structure of coal and auto exhibits a strong labour model that converges towards the CME end of the spectrum due to the strong trade union model, high unionisation rate and comprehensive CBAs. My analysis also revealed that in an attempt to gain more control over the structure of the two industrial orders, labour implemented a series of offence strategies – in the form of strikes and sometimes even violence – and in the process, was able to challenge dominant elite power. Contrastingly, labour in business services is skewed towards the LME type due to the high incidence of flexible work arrangements, the prevalence of weak CBAs, the low unionisation rate and the anti-trade union behaviour across the sector. Thus, my findings bring to the fore the concept of institutional heterogeneity within the national configuration. The central idea is that in every national model there is far more variety than just one dominant institutional path.

Furthermore, I was able to capture the existence of institutional divergence within a sector – this was not what I expected to find when I began my research. I was surprised to see the degree of differentiation between the institutional configurations of the two firm-level case studies from auto. Despite the fact that the presence of FDI drove a

process of industrial re-construction and upgrading at both firms, the complexity of activities and the value chain segment undertaken is distinct across the two firms. Renault's subsidiary specialises in the full spectrum of economic activities, with the complexity of production covering both downstream, non-analytical value chain segments and upstream, creative ones. Contrastingly, production capacities at Ford's subsidiary are skewed towards non-analytical and non-R&D activities, with only recently there being a shift towards more sophisticated value chain segments because of technological upgrading. The development of firm-specific skills via comprehensive in-house training is pursued much more methodically at Renault, whereas at Ford the level of investment in training is lower and the emphasis is on the development of more general, portable skills. Consequently, the internal company dynamics of Renault converge towards the CME model, while the institutional configuration of Ford resembles the LME model. My finding reinforces the possibility of distinct institutional logics existing in parallel within a sector.

Reflecting on the issue of coding, the creation of initial codes from the synthesis of the literature and history helped me analyse the data collected through in-depth interviewing and archival research. The ideas emerging from the collected data reinforced my 'grounded' codes, but also refined, sharpened and extended the preliminary ideas that I had constructed via an inductive process. There were also instances that the findings emerging from the collected data disproved my initial ideas about the data. For example, the synthesis of the theory and history revealed that Romania was a laggard case vis-à-vis other CEE typologies. However, the interview data indicated that Romania had succeeded in revitalising some of its industry and shifting the trajectory of the political economy from institutional decline in the first decade post-Socialism to institutional growth in the second and third decades post-Socialism. It took several iterations of synthesising the theory, history and fieldwork data to fully construct the overarching themes for each of my sectors, including the propositions and ideas subordinated to them. Overall, I feel that this process of iterative theory development allowed me to pursue theoretical sensitivity (Glaser and Strauss, 1967). Birks and Mills define theoretical sensitivity as "the ability to recognise and extract from the data elements that have relevance for the emerging theory" (2015, 181). Furthermore, I believe this process of iterative theory development enabled me to apply procedural precision and rigour throughout the research process (Morse, 2007).

In terms of the methodological contribution, my study provides a synthesis of five overarching approaches to the study of institutional change within the context of the CEE region: 1) varieties of capitalism (VoC), 2) Polanyian varieties, 3) economic geography, 4) historical institutionalism, and 5) the theorisation of the concept of elites. My study has undertaken a systematic review of these five literatures – summarising the central findings of each approach; shedding light on the shortcomings of the different literatures; and highlighting the advantages of each approach, extracting them and incorporating them in the foundations of my own theoretical framework.

Furthermore, my study recognises the importance of scale, as it allows me to monitor and assess the different types of exchanges between the existing spatial configurations (Jessop, 1994; Collinge, 2005). More specifically, I conceptualised my research design in such a way as to capture the relations between the different scales and “the pattern of institutional integration” (Jessop, 1994, 14). My study views the institutional setting relationally, marked by the presence of a multitude of interacting actors, institutions and forces that operate at diverging levels – micro-, meso-, macro- and international-level. Thus, the contribution of my study is that it brings the macro and meso levels together and sometimes even the micro level, all the while that the national political economy is situated within an international order shaped by supranational institutions and transnational agents. Breaking the institutional structure into different integrated scales allowed me to capture how the institutional changes occurring at one level influenced the transformation of other levels. For example, by examining how the coal mining labouring class struggled to retain its powers vis-à-vis dominant elites, I was able to observe that the central players of the state apparatus drove the process of labour market deregulation and the weakening of industrial relations at the sectoral and national scale. Hence, the instances of labour unrest at the sectoral-level – the *Mineriadas* – influenced institutional transformation not only at the sectoral-level but also across the wider national political economy.

I will now focus on the empirical contribution of the present work. The comparative longitudinal study of the three sectors enabled me to chart the institutional changes accompanying the decline of coal mining, the re-construction of auto and the rise of business services. My study of coal mining represents the first study of this industrial branch since 2006. Cernat’s book *Europeanization, Varieties of Capitalism and Economic Performance in Central and Eastern Europe* focused on the institutional

configuration of coal mining during the first decade post-Socialism, with a strong emphasis on labour issues (the *Mineriadas*). Hence, my work is the first longitudinal research study of coal during the timeframe 1960s-2010s that incorporates a comprehensive account of the different forces of change influencing the industrial branch: elites, industrial policy, international forces, and labour.

My work also represent the first field study research of the business services sector in Romania. As I have emphasized in Chapter 7, this industrial activity is not even formally recognised in the Romanian Occupation Classification and it is quite often mistakenly grouped with ITC. My analysis of Romanian business services can match other studies of business services in national political economies such as India or Poland, complementing the existing body of knowledge on the institutional structure and evolution of the sector.

Furthermore, my work constitutes the first field study research analysing both firm-level case studies within the institutional configuration of auto. As I have highlighted in Chapter 6, out of the two firms, Dacia has always been considered the national success story and as a result, the firm has attracted a greater degree of attention from the press as well as academia. The story of Olcit has not been so straightforward, with the company being plagued by a conflictual collaborative arrangement with Citroën (1976-1991), multiple financial crises throughout the years, and the failure of the first instance of FDI displacement (Daewoo). Hence, my study is the first longitudinal analysis of Romanian auto during the timeframe 1960s-2010s that incorporates a comprehensive analysis of both firms, ultimately recognising the uneven institutional development and institutional heterogeneity across the sectoral economy. My study of the Romanian auto sector can complement the existing studies of auto across the CEE region, especially those focused on Slovakia, the Czech Republic and Hungary, where the presence of FDI has also driven a process of re-construction and expansion of auto production capacities. The analysis of the Romanian case study can enable future research to chart a more comprehensive comparative analysis of the institutional transformation and upgrading of auto across the different national political economies of CEE.

Limitations of the Study

The main limitation of my analysis of the coal industry was the inability to secure access to interview candidates. There is a general unwillingness of social agents across

the entire sector – whether they are coal miners, managers of exploitation sites or trade union leaders – to speak to researchers or members of the press. This is primarily because of the sensitive nature of the material. The instances of labour unrest during the Mineriadas are still a very sensitive topic in Romania. More specifically, there is an ongoing legal investigation regarding the events during 1990, 1991 and 1999 respectively, with many institutional players – managers and trade union leaders – awaiting to stand trial for their actions during those crisis moments. Thus, a major source of limitation is due to the sensitive nature of the material I investigated. Despite not interviewing any industry representatives, I filled this gap in my study by using mixed methods.

The study of auto presented a similar limitation to that of coal mining – more specifically, the limitation associated with the inability to secure access. It is important to emphasize the fact that the auto industry is an ‘active’ and growing sector vis-à-vis coal mining which has been gradually restructured since the late 1990s. Furthermore, the Romanian state views auto as a nationally important industrial branch. This renders the nature of internal industry documents as highly sensitive. Not so surprisingly then, while I was undertaking the archival research in relation to the study of auto, I experienced multiple instances when the archival documents that I wanted to review were still classified. This prevented me from analysing the auto case study as comprehensively as I would have liked. Furthermore, the inability to access some of these historical documents made me question whether there are any themes or moments of institutional change that I failed to incorporate in my study. However, the fact that I supplemented archival data with interview data and a variety of newspaper articles and technical reports allowed me to fill this gap in my study.

The principal limitation in the analysis of business services was the weakly covered perspective of labour. The reason behind this is due to the weak and fragmented institutional configuration of industrial relation across the sector. Business services has an extremely low level of unionisation, the model of unionisation has been replaced by an alternative framework that has further weakened the powers of employees to organise and negotiate, and there are various instances of anti-trade union behaviour which limit even further the willingness of employees to exercise voice. Unionisation in business services constitutes a relatively sensitive topic. My experience interviewing business services executives revealed that there is a general lack of knowledge

regarding trade union activity coupled with a general lack of willingness to talk about the issue of organised labour. People shut down when you want to discuss labour issues, either because they do not know or because they don't want to talk about them with an outsider.

The insufficiently covered perspective of labour is a weakness running through all my empirical chapters. The issue in relation to labour is two-fold: technical and theoretical. Technically, I could not analyse the labour theme as comprehensively as I would have wanted due to access issues. More precisely, I was unable to secure interviews with trade union leaders in any of the three industries, despite having a range of personal ties to industry representatives (managers) and being provided with the contact details of various organised labour leaders by my gatekeepers. As I emphasized previously, labour issues are regarded as highly sensitive. The large number of labour-related high-profile legal cases and corruption scandals in the last few years has exacerbated this 'secrecy' clause on the topic of labour issues. Theoretically speaking, my study set out to analyse labour relationally across the three sectoral economies. The fact that I could not gain access to labour representatives meant that I could only achieve the partial development of the initial theme of labour. However, despite having a weaker coverage of the labour perspective, by utilising mixed methods I did achieve to capture the fact that labour can be a driver of institutional change, although not as powerful as elites and international forces.

The impression of success emerging from the institutional evolution of the auto and business services sectors might be because I only managed to capture a partial view of the institutional actors shaping the internal dynamics of the Romanian political economy. The insufficiently covered perspective of labour resulted in a more capital-centric approach to explaining institutional formation and transformation across the national political economy and three sectors I investigate.

Future Research

Due to the insufficiently covered perspective of labour running through my study, a study of labour across the Romanian national variety of capitalism is an area of potential future research. More precisely, future research could focus on a comparative analysis of industrial relations across different sectoral economies of the Romanian political economy. It would be very interesting to chart the institutional structure and

transformation of industrial relations across the two industries with a ‘star status’ – auto and business services.

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